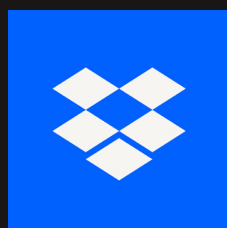


2020 Annual Report and Notice of Annual Meeting and Proxy Statement

Annual Meeting to be held on May 20, 2021



Dropbox



DROPBOX, INC.
1800 OWENS STREET
SAN FRANCISCO,
CALIFORNIA 94158

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS to be held at 9:00 am Pacific Time on Thursday, May 20, 2021

Dear Stockholders of Dropbox, Inc.:

We cordially invite you to attend the 2021 annual meeting of stockholders (the “**Annual Meeting**”) of Dropbox, Inc., a Delaware corporation, to be held on May 20, 2021 at 9:00 am Pacific Time. The Annual Meeting will be conducted virtually via live audio webcast. You will be able to attend the Annual Meeting virtually by visiting www.virtualshareholdermeeting.com/DBX2021, where you will be able to listen to the meeting live, submit questions and vote online.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, we urge you to promptly vote and submit your proxy via the Internet, by telephone or by mail.

We are holding the Annual Meeting for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect seven directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021;
3. To approve, on an advisory basis, the compensation of our named executive officers; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Our board of directors has fixed the close of business on March 23, 2021 as the record date for the Annual Meeting. Stockholders of record on March 23, 2021 are entitled to notice of and to vote at the Annual Meeting. Further information regarding voting rights and the matters to be voted upon is presented in the accompanying proxy statement.

The accompanying proxy statement and our annual report can be accessed by visiting: www.proxyvote.com. You will be asked to enter the 16-digit control number located on your proxy card.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, we urge you to submit your vote via the Internet, telephone, or mail as soon as possible to ensure your shares are represented. For additional instructions on voting by telephone or the Internet, please refer to your proxy card. Returning the proxy does not deprive you of your right to attend the Annual Meeting and to vote your shares at the Annual Meeting.

By order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Andrew W. Houston", with a long horizontal line extending to the right.

Andrew W. Houston

Chief Executive Officer, Co-Founder, and Chairman of the Board
San Francisco, California

April 6, 2021

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GENERAL INFORMATION

DROPBOX, INC.

PROXY STATEMENT FOR THE 2021 ANNUAL MEETING OF STOCKHOLDERS to be held at 9:00 am Pacific Time on Thursday, May 20, 2021

This proxy statement and the enclosed form of proxy are furnished in connection with the solicitation of proxies by our board of directors for use at the 2021 annual meeting of stockholders of Dropbox, Inc., a Delaware corporation, and any postponements, adjournments or continuations thereof (the “**Annual Meeting**”). The Annual Meeting will be held on Thursday, May 20, 2021 at 9:00 am Pacific Time. The Annual Meeting will be conducted virtually via live audio webcast. You will be able to attend the Annual Meeting virtually by visiting www.virtualshareholdermeeting.com/DBX2021, where you will be able to listen to the meeting live, submit questions and vote online. The Notice of Internet Availability of Proxy Materials (the “**Notice**”) containing instructions on how to access this proxy statement and our annual report is first being mailed on or about April 6, 2021 to all stockholders entitled to vote at the Annual Meeting. The proxy materials and our 2020 annual report can be accessed by following the instructions in the Notice.

The information provided in the “question and answer” format below is for your convenience only and is merely a summary of the information contained in this proxy statement. You should read this entire proxy statement carefully. Information contained on, or that can be accessed through, our website is not intended to be incorporated by reference into this proxy statement and references to our website address in this proxy statement are inactive textual references only.

What matters am I voting on?

You are being asked to vote on:

- the election of seven directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified;
- a proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021;
- a proposal to approve, on an advisory basis, the compensation of our named executive officers; and
- any other business as may properly come before the Annual Meeting.

How does the board of directors recommend I vote on these proposals?

Our board of directors recommends a vote:

- “FOR” the election of each director nominee named in this proxy statement;
- “FOR” the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021; and
- “FOR” the approval, on an advisory basis, of the compensation of our named executive officers.

How many votes are needed for approval of each proposal?

- **Proposal No. 1:** Each director is elected by a plurality of the votes of the shares present virtually or represented by proxy at the meeting and entitled to vote on the election of directors at the Annual Meeting. Abstentions and broker non-votes will have no effect on the outcome of the vote. “Plurality” means that the seven nominees who receive the largest number of votes cast “for” such nominees are elected as directors. As a result, any shares not voted “for” a particular nominee (whether as a result of a withhold vote or a broker non-vote) will not be counted in such nominee’s favor and will have no effect on the outcome of the election. You may vote “For” or “Withhold” on each of the nominees for election as a director.
- **Proposal No. 2:** The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021, requires the affirmative “For” vote of a majority of the voting power of the shares of

GENERAL INFORMATION (continued)

our common stock present virtually or represented by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions are considered shares present and entitled to vote on this proposal, and thus, will have the same effect as a vote “Against” this proposal. Broker non-votes will have no effect on the outcome of this proposal.

- **Proposal No. 3:** The approval, on an advisory basis, of the compensation of our named executive officers requires the affirmative vote of at least a majority of the voting power of our common stock present virtually or represented by proxy at the Annual Meeting and entitled to vote thereon to be approved. You may vote “For,” “Against,” or “Abstain” with respect to this proposal. Abstentions are considered shares present and entitled to vote on this proposal, and thus, will have the same effect as a vote “Against” this proposal. Broker non-votes will have no effect on the outcome of this proposal. Because this proposal is an advisory vote, the result will not be binding on our board of directors or our company. Our board of directors and our compensation committee will consider the outcome of the vote when determining named executive officer compensation.

Who is entitled to vote?

Holders of our Class A and Class B common stock as of the close of business on March 23, 2021, the record date for the Annual Meeting, may vote at the Annual Meeting. As of the record date, there were 319,674,332 shares of our Class A common stock outstanding and 83,184,488 shares of our Class B common stock outstanding. Our Class A common stock and Class B common stock will vote as a single class on all matters described in this proxy statement for which your vote is being solicited. Stockholders are not permitted to cumulate votes with respect to the election of directors. Each share of Class A common stock is entitled to one vote on each proposal and each share of Class B common stock is entitled to 10 votes on each proposal. Our Class A common stock and Class B common stock are collectively referred to in this proxy statement as our “common stock.”

Registered Stockholders. If shares of our common stock are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered the stockholder of record with respect to those shares, and the Notice was provided to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card or to vote live at the Annual Meeting. Throughout this proxy statement, we refer to these registered stockholders as “stockholders of record.”

Street Name Stockholders. If shares of our common stock are held on your behalf in a brokerage account or by a bank or other nominee, you are considered to be the beneficial owner of shares that are held in “street name,” and the Notice was forwarded to you by your broker or nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank, or other nominee as to how to vote your shares. Beneficial owners are also invited to attend the Annual Meeting. However, since a beneficial owner is not the stockholder of record, you may not vote your shares of our common stock live at the Annual Meeting unless you follow your broker’s procedures for obtaining a legal proxy. If you request a printed copy of our proxy materials by mail, your broker, bank, or other nominee will provide a voting instruction form for you to use. Throughout this proxy statement, we refer to stockholders who hold their shares through a broker, bank, or other nominee as “street name stockholders.”

Are a certain number of shares required to be present at the Annual Meeting?

A quorum is the minimum number of shares required to be present at the Annual Meeting to properly hold an annual meeting of stockholders and conduct business under our amended and restated bylaws and Delaware law. The presence, virtually or by proxy, of a majority of the voting power of all issued and outstanding shares of our common stock entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting. Abstentions, withhold votes, and broker non-votes are counted as shares present and entitled to vote for purposes of determining a quorum.

How do I vote?

If you are a stockholder of record, there are several ways to vote:

- by Internet prior to the Annual Meeting at www.proxyvote.com, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Time on May 19, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 17, 2021 for shares held in a Plan (have your Notice or proxy card in hand when you visit the website);
- by toll-free telephone at 1-800-690-6903, until 11:59 p.m. Eastern Time on May 19, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 17, 2021 for shares held in a Plan (have your Notice or proxy card in hand when you call);
- by completing and mailing your proxy card (if you received printed proxy materials); or

GENERAL INFORMATION (continued)

- by attending the Annual Meeting by visiting www.virtualshareholdermeeting.com/DBX2021, where you may vote and submit questions during the meeting (please have your Notice or proxy card in hand when you visit the website).

Even if you plan to attend the Annual Meeting, we recommend that you also vote by proxy so that your vote will be counted if you later decide not to attend the Annual Meeting.

If you are a street name stockholder, you will receive voting instructions from your broker, bank, or other nominee. You must follow the voting instructions provided by your broker, bank, or other nominee in order to direct your broker, bank, or other nominee on how to vote your shares. Street name stockholders should generally be able to vote by returning a voting instruction form, or by telephone or on the Internet. However, the availability of telephone and Internet voting will depend on the voting process of your broker, bank, or other nominee. As discussed above, if you are a street name stockholder, you may not vote your shares live at the Annual Meeting unless you obtain a legal proxy from your broker, bank, or other nominee.

How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?

Brokerage firms and other intermediaries holding shares of our common stock in street name for their customers are generally required to vote such shares in the manner directed by their customers. In the absence of timely directions, your broker will have discretion to vote your shares on our sole “routine” matter: the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021. Your broker will not have discretion to vote on any other proposals, which are “non-routine” matters, absent direction from you (and failure to provide instructions on these matters will result in a “broker non-vote”).

Can I change my vote?

Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- entering a new vote by Internet or by telephone;
- completing and returning a later-dated proxy card;
- notifying the Corporate Secretary of Dropbox, Inc., in writing, at Dropbox, Inc., 1800 Owens Street, San Francisco, California 94158; or
- You may also change your vote by attending and voting at the Annual Meeting (although attendance at the Annual Meeting will not, by itself, revoke a proxy).

If you are a street name stockholder, your broker, bank, or other nominee can provide you with instructions on how to change your vote.

What do I need to do to attend the Annual Meeting?

You will be able to attend the Annual Meeting virtually, submit your questions during the meeting and vote your shares electronically at the meeting by visiting www.virtualshareholdermeeting.com/DBX2021. To participate in the Annual Meeting, you will need the control number included on your Notice or proxy card. The Annual Meeting webcast will begin promptly at 9:00 am Pacific Time. We encourage you to access the meeting prior to the start time. Online check-in will begin at 8:45 am Pacific Time, and you should allow ample time for the check-in procedures.

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our board of directors. Andrew W. Houston and Timothy Regan have been designated as proxy holders by our board of directors. When proxies are properly dated, executed, and returned, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If the proxy is dated and signed, but no specific instructions are given, the shares will be voted in accordance with the recommendations of our board of directors as described above. If any matters not described in this proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote the shares. If the Annual Meeting is adjourned, the proxy holders can vote the shares on the new Annual Meeting date as well, unless you have properly revoked your proxy, as described above.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a full set of proxy materials?

In accordance with the rules of the Securities and Exchange Commission (“SEC”), we have elected to furnish our proxy materials, including this proxy statement and our annual report, primarily via the Internet. The Notice containing instructions on how to access our proxy materials is first being mailed on or about April 6, 2021 to all stockholders entitled to vote at the Annual Meeting.

GENERAL INFORMATION (continued)

Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of our proxy materials on the Internet to help reduce the environmental impact and cost of our annual meetings of stockholders.

How are proxies solicited for the Annual Meeting?

Our board of directors is soliciting proxies for use at the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers or other nominees for reasonable expenses that they incur in sending our proxy materials to you if a broker, bank, or other nominee holds shares of our common stock on your behalf. In addition, our directors and employees may also solicit proxies by telephone, by electronic communication or by other means of communication. Our directors and employees will not be paid any additional compensation for soliciting proxies.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will also disclose voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the Annual Meeting, we will file a Form 8-K to publish preliminary results and will provide the final results in an amendment to the Form 8-K as soon as they become available.

I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called “householding,” which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, our proxy materials, to multiple stockholders who share the same address, unless we have received contrary instructions from one or more of such stockholders. This procedure reduces our printing costs, mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, we will deliver promptly a separate copy of the Notice and, if applicable, our proxy materials, to any stockholder at a shared address to which we delivered a single copy of any of these materials. To receive a separate copy, or, if a stockholder is receiving multiple copies, to request that we only send a single copy of the Notice and, if applicable, our proxy materials, such stockholder may contact us at:

Dropbox, Inc.
Attention: Corporate Secretary
1800 Owens Street
San Francisco, California 94158
(415) 857-6800

Street name stockholders may contact their broker, bank, or other nominee to request information about householding.

What is the deadline to propose actions for consideration at next year’s annual meeting of stockholders or to nominate individuals to serve as directors?

Stockholder Proposals

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at next year’s annual meeting of stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for the 2022 annual meeting of stockholders, our Secretary must receive the written proposal at our principal executive offices not later than December 7, 2021. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Stockholder proposals should be addressed to:

Dropbox, Inc.
Attention: Corporate Secretary
1800 Owens Street,
San Francisco, California 94158
(415) 857-6800

Our amended and restated bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement. Our amended and

GENERAL INFORMATION (continued)

restated bylaws provide that the only business that may be conducted at an annual meeting of stockholders is business that is (i) specified in our proxy materials with respect to such annual meeting, (ii) otherwise properly brought before such annual meeting by or at the direction of our board of directors, or (iii) properly brought before such meeting by a stockholder of record entitled to vote at such annual meeting who has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our amended and restated bylaws. To be timely for the 2022 annual meeting of stockholders, our Corporate Secretary must receive the written notice at our principal executive offices:

- not earlier than January 21, 2022; and
- not later than February 20, 2022.

In the event that we hold the 2022 annual meeting of stockholders more than 30 days before or more than 60 days after the one-year anniversary of the Annual Meeting, a notice of a stockholder proposal that is not intended to be included in our proxy statement must be received no earlier than the close of business on the 120th day before the 2022 annual meeting of stockholders and no later than the close of business on the later of the following two dates:

- the 90th day prior to the 2022 annual meeting of stockholders; or
- the 10th day following the day on which public announcement of the date of the 2022 annual meeting of stockholders is first made.

If a stockholder who has notified us of his, her, or its intention to present a proposal at an annual meeting of stockholders does not appear to present his, her, or its proposal at such annual meeting, we are not required to present the proposal for a vote at such annual meeting.

Recommendation or Nomination of Director Candidates

Holders of 1% of our fully diluted capitalization for at least 12 months prior to the submission of the recommendation may recommend director candidates for consideration by our nominating and corporate governance committee. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our Corporate Secretary or legal department at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see the section titled "*Board of Directors and Corporate Governance—Stockholder Recommendations and Nominations to the Board of Directors.*"

In addition, our amended and restated bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our amended and restated bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our amended and restated bylaws, which, in general, require that the notice be received by our Corporate Secretary within the time periods described above under the section titled "*Stockholder Proposals*" for stockholder proposals that are not intended to be included in a proxy statement.

Availability of Bylaws

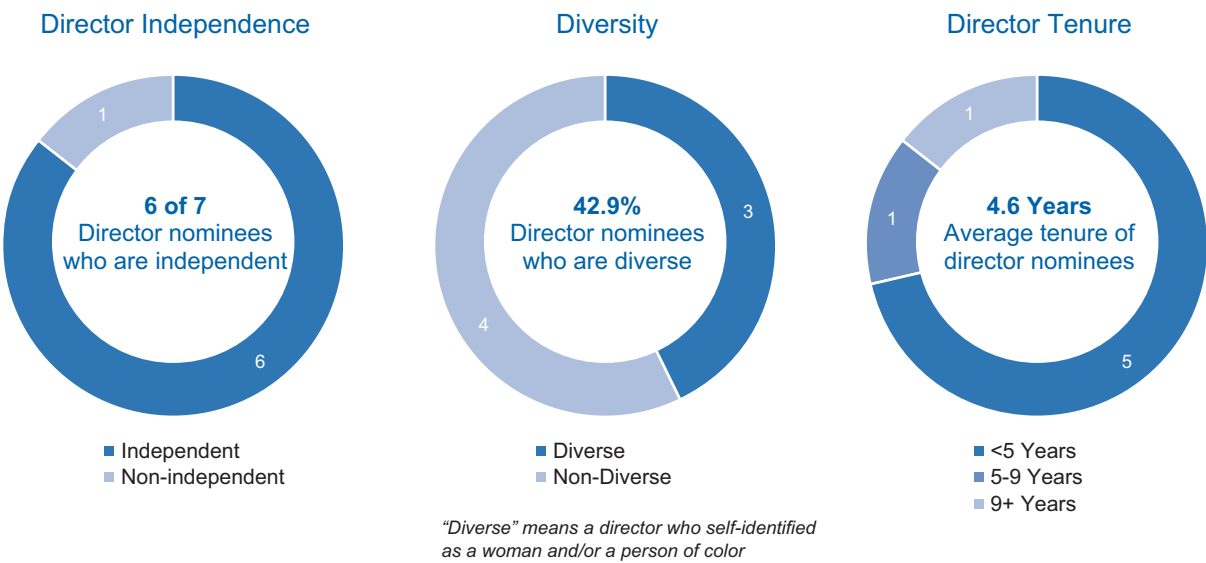
A copy of our amended and restated bylaws is available via the SEC's website at <http://www.sec.gov>. You may also contact our Corporate Secretary at the address set forth above for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our business affairs are managed under the direction of our board of directors. As of March 15, 2021, our board of directors consisted of eight directors, seven of whom qualified as “independent” under the listing standards of the NASDAQ Global Select Market (“**Nasdaq**”). As previously announced, on December 10, 2020, R. Bryan Schreier resigned as a member of the board of directors and Michael Seibel was appointed as a member of the board of directors. Also as previously announced, Condoleezza Rice will not stand for re-election as a director due to her other professional commitments and demands on her time, and her service on our board of directors will end at the Annual Meeting.

Until the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, we will have a single class of directors who are each elected for one-year terms and until their successors are duly elected and qualified. When the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, we will have a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. Our directors will be assigned by the then-current board of directors to a class.

In determining the composition of our board, our board of directors and nominating and corporate governance committee are committed to ensuring that our directors maintain effective and independent oversight of our business and that they capably represent the interests of our stockholders. As part of this commitment, our nominating and corporate governance committee considers the diversity of director nominees with respect to gender, race, ethnicity, sexual orientation, gender identity, viewpoints and perspectives, experience, and backgrounds. The following charts provide summary information about our director nominees with respect to independence, diversity, and tenure. For additional information regarding our criteria for evaluating director nominees, see the section titled “*Considerations in Evaluating Director Nominees.*”



BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Nominees for Director

The following provides summary information about each of our director nominees and non-continuing director as of March 15, 2021:

ANDREW W. HOUSTON

AGE: 38

DIRECTOR SINCE: 2007

COMMITTEES: None

CHAIRMAN OF THE BOARD

EXPERIENCE: Mr. Houston is one of our co-founders and has served as a member of our board of directors and our Chief Executive Officer since June 2007. Mr. Houston also currently serves as a member of the board of directors of Facebook, Inc. Mr. Houston holds a B.S. in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology. Mr. Houston was selected to serve on our board of directors because of the perspective and experience he brings as our Chief Executive Officer and as one of our co-founders.



DONALD W. BLAIR

AGE: 62

DIRECTOR SINCE: 2017

COMMITTEES: Audit (*Chair*)

LEAD INDEPENDENT DIRECTOR

EXPERIENCE: Mr. Blair has served as a member of our Board of Directors since December 2017. From November 1999 to October 2015, Mr. Blair served as Executive Vice President and Chief Financial Officer for NIKE, Inc., or NIKE, a global footwear and apparel company. Prior to joining NIKE, for fifteen years, Mr. Blair served in a number of senior executive-level corporate and operating unit financial assignments for PepsiCo, Inc., or PepsiCo, a food and beverage company, including Chief Financial Officer for PepsiCo Japan (based in Tokyo) and Pepsi-Cola International's Asia Division (based in Hong Kong). Mr. Blair currently serves as a member of the board of directors for Corning Incorporated, a global manufacturing company. Mr. Blair holds an M.B.A. and a B.S. in Economics from the University of Pennsylvania. Mr. Blair was selected to serve on our Board of Directors because of his extensive financial expertise, and business management and governance experience.



BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

LISA CAMPBELL

AGE: 57

DIRECTOR SINCE: 2019

COMMITTEES: Audit; Nominating & Corporate Governance

INDEPENDENT DIRECTOR

EXPERIENCE: Ms. Campbell has served as a member of our board of directors since August 2019. Since August 2017, Ms. Campbell has served as Chief Marketing Officer and Senior Vice President of Business Strategy for Autodesk, Inc., or Autodesk, a multinational software corporation that makes software services for the architecture, engineering, construction, manufacturing, media, education, and entertainment industries. From January 2015 to August 2017, Ms. Campbell served as Vice President, Industry Strategy and Marketing – Manufacturing at Autodesk, and she served as its Vice President, Industry Strategy and Marketing – Architecture, Engineering and Construction from February 2012 through January 2015. She has also held other senior positions at Autodesk, including managing its Global eCommerce business and Autodesk.com, and managing its Geospatial Business and infrastructure business. Prior to joining Autodesk in 2003, Ms. Campbell served in executive-level marketing positions at Evolve (now Oracle), Sterling Software Inc., and Digital Equipment Corporation. Ms. Campbell holds an M.B.A. from Babson College and a B.A. in Mathematics and Computer Science from Boston College. She was selected to serve on our board of directors because of her valuable expertise in business, industry, and marketing strategy.



PAUL E. JACOBS, Ph.D

AGE: 58

DIRECTOR SINCE: 2016

COMMITTEES: Nominating & Corporate Governance (*Chair*)

INDEPENDENT DIRECTOR

EXPERIENCE: Dr. Jacobs has served as a member of our board of directors since April 2016. Since April 2018, Dr. Jacobs has served as Chairman and Chief Executive Officer of XCOM Labs, Inc., a wireless technology company, and since January 2021, Dr. Jacobs has served as CEO and as a member of the board of directors of Jaws Juggernaut Acquisition Corporation, a special purpose acquisition company. From March 2014 to March 2018, Dr. Jacobs served as Executive Chairman for Qualcomm Incorporated, a semiconductor and telecommunications equipment company, or Qualcomm. From March 2009 to March 2018, Dr. Jacobs served as Chairman of the board of directors for Qualcomm. From July 2005 to March 2014, Dr. Jacobs served as Chief Executive Officer for Qualcomm. Dr. Jacobs also currently serves as a member of the board of directors for a number of private companies. Dr. Jacobs holds a Ph.D. in Electrical Engineering and Computer Science, an M.S. in Electrical Engineering, and a B.S. in Electrical Engineering and Computer Science from the University of California, Berkeley. Dr. Jacobs was selected to serve on our board of directors because of his extensive business, operations, and management experience.



BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

ROBERT J. MYLOD JR.

AGE: 54

DIRECTOR SINCE: 2014

COMMITTEES: Audit; Compensation

INDEPENDENT DIRECTOR

EXPERIENCE: Mr. Mylod has served as a member of our board of directors since September 2014. Mr. Mylod served as Managing Partner for Annox Capital Management, a venture capital firm that Mr. Mylod founded, since January 2013. Mr. Mylod served as Head of Worldwide Strategy & Planning and Vice Chairman for Bookings Holdings, Inc. (f/k/a The Priceline Group), an online travel services provider, from January 2009 to March 2011 and as its Chief Financial Officer and Vice Chairman from November 2000 to January 2009. Mr. Mylod currently serves as the Chairman of the board of directors for Vroom, Inc., an online marketplace for pre-owned cars and Booking Holdings, Inc., an online travel services provider. Mr. Mylod also serves as a member of the board of directors for Redfin Corporation, a real estate company that provides web-based real estate database and brokerage services, and a number of private companies. Mr. Mylod holds an MBA from the University of Chicago Booth School of Business and an A.B. in English from the University of Michigan. Mr. Mylod was selected to serve on our board of directors because of his financial expertise and global business experience.



KAREN PEACOCK

AGE: 48

DIRECTOR SINCE: 2019

COMMITTEES: Compensation

INDEPENDENT DIRECTOR

EXPERIENCE: Ms. Peacock has served as a member of our board of directors since August 2019. Since July 2020, Ms. Peacock has served as Chief Executive Officer for Intercom, Inc., or Intercom, a corporation that develops and markets business messaging and communication software, and from May 2017 to July 2020, Ms. Peacock served as Chief Operating Officer for Intercom. From January 2016 to March 2017, Ms. Peacock served as Senior Vice President, Small Business at Intuit Inc., or Intuit, and from 2014 to January 2016, she served as VP, General Manager of Intuit's Employee Management Solutions division. Ms. Peacock has also held other senior roles at Intuit, including Vice President of Marketing and Product Management. Prior to joining Intuit in 2002, Ms. Peacock was Director of Product Management at Allegis Corporation and prior to that, was a management consultant with the Boston Consulting Group. Ms. Peacock holds an M.B.A. from Stanford Graduate School of Business and a B.A. in Applied Mathematics from Harvard University. She was selected to serve on our board of directors because of her valuable expertise in business, industry, and her extensive experience in executive-level operational roles.



BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)



MICHAEL SEIBEL

AGE: 38

DIRECTOR SINCE: 2020

COMMITTEES: Compensation

INDEPENDENT DIRECTOR

EXPERIENCE: Mr. Seibel has served as a member of our board of directors since December 2020. Mr. Seibel has served as a Partner at Y Combinator, an accelerator and investment company for early-stage technology companies since October 2014 and is also currently the Managing Director of YC Early Stage. From February 2012 to August 2012, Mr. Seibel served as Chief Executive Officer of Socialcam, Inc., a social media company, and from June 2007 to October 2011, Mr. Seibel served as Chief Executive Officer of Justin.tv (now known as Twitch.tv), an online video broadcasting company. Mr. Seibel holds a B.A. in Political Science from Yale University. Mr. Seibel was selected to serve on our board of directors because of his financial and managerial experience.

Non-Continuing Director



CONDOLEEZZA RICE, Ph.D

AGE: 66

DIRECTOR SINCE: 2014

COMMITTEES: Compensation (*Chair*)

INDEPENDENT DIRECTOR

EXPERIENCE: Dr. Rice has served as a member of our board of directors since April 2014. Since September 2010, Dr. Rice has served as the Denning Professor of Global Business and the Economy for the Stanford Graduate School of Business. Since March 2009, Dr. Rice has served as a Senior Fellow of Public Policy for the Hoover Institution, Stanford University, as a Senior Fellow for the Freeman Spogli Institute for International Studies, Stanford University, and as a Professor of Political Science for Stanford University. Dr. Rice has served as a partner at RiceHadleyGates LLC, an international strategic consulting firm that Dr. Rice founded, since November 2009. From January 2005 to January 2009, Dr. Rice served as the Secretary of State of the United States of America. From January 2001 to January 2005, Dr. Rice served as Chief National Security Advisor to President George W. Bush. Beginning in 1981, she served in various roles at Stanford University, including serving as Provost from 1993-1999. Dr. Rice previously served as a member of the board of directors of Charles Schwab Corporation, a bank and brokerage firm, Chevron Corporation, a multinational energy corporation, Transamerica Corporation, a life insurance and investment company, and KiOR, Inc., a renewable fuels company. Dr. Rice currently serves as an advisor for a number of other public companies, and as a member of the board directors for C3.ai, Inc., a developer of enterprise artificial intelligence software, as well as for a number of private companies, including Makena Capital Management, LLC. Dr. Rice holds a Ph.D. in Political Science from the University of Denver, an M.A. in Political Science from the University of Notre Dame and a B.A. in Political Science from the University of Denver. Dr. Rice was selected to serve on our board of directors because of her deep global expertise and business experience from her prior roles as a director of multiple public companies and her background in policymaking, education, and innovation.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Director Independence

Under the listing rules of Nasdaq, independent directors must comprise a majority of a listed company's board of directors. In addition, Nasdaq rules require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent. Under Nasdaq rules, a director will only qualify as an "independent director" if, in the opinion of the company's board of directors, the director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment, and affiliations, our board of directors has determined that Drs. Jacobs and Rice, Messrs. Blair, Mylod, and Seibel, and Mss. Campbell and Peacock do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under Nasdaq listing rules. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director, and the transactions involving them, if any, described in the section titled "*Certain Relationships and Related Party Transactions*." In addition, the board of directors determined that Mr. Schreier, who served as a director until his resignation in December 2020, was independent during the 2020 fiscal year.

Board Leadership Structure and Role of the Lead Independent Director

Mr. Houston currently serves as both the chairman of our board of directors and as our chief executive officer. As our co-founder, Mr. Houston is best positioned to identify strategic priorities, lead critical discussion, and execute our business plans.

Our board of directors has adopted Corporate Governance Guidelines that provide that one of our independent directors should serve as our lead independent director at any time when the chairman of our board of directors is not independent, including when our chief executive officer serves as the chairman of our board of directors. Because Mr. Houston is our chairman and is not an "independent" director as defined in Nasdaq's listing rules, our board of directors has determined that it is advisable and in the best interests of stockholders to have a lead independent director to, among other things, preside over meetings of the independent directors and help set the agenda for Board meetings. Dr. Rice served as our lead independent director from June 2018 until March 2020, at which time Dr. Rice stepped down as lead independent director and our board of directors selected Mr. Blair to succeed Dr. Rice. As our lead independent director, Mr. Blair presides over periodic meetings of our independent directors, serves as a liaison between Mr. Houston and our independent directors, and performs such additional duties as our board of directors may otherwise determine and delegate.

Only independent directors serve on the audit committee, the compensation committee, and the nominating and corporate governance committee of our board of directors. Our independent directors meet at least quarterly in executive sessions chaired by the lead independent director, which include discussions and recommendations regarding guidance to be provided to the chief executive officer, and such topics as the independent directors may determine.

As a result of the board of directors' committee system and the existence of a majority of independent directors, the board of directors believes it maintains effective oversight of our business operations, including independent oversight of our financial statements, executive compensation, selection of director candidates, and corporate governance programs. We believe that the leadership structure of our board of directors, including Mr. Blair's role as lead independent director, as well as the strong independent committees of our board of directors is appropriate and enhances our board of directors' ability to effectively carry out its roles and responsibilities on behalf of our stockholders, while Mr. Houston's combined role enables strong leadership, creates clear accountability and enhances our ability to communicate our message and strategy clearly and consistently to stockholders.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Board Committees

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee. The composition and responsibilities of each of the committees of our board of directors is described below. Members will serve on these committees until their resignation or until as otherwise determined by our board of directors.

Director	Audit	Compensation	Nominating and Corporate Governance
Andrew W. Houston			
Donald W. Blair	■ ▲		
Lisa Campbell	●		●
Paul E. Jacobs, Ph.D			■
Robert J. Mylod Jr.	● ▲	●	
Karen Peacock		●	
Condoleezza Rice, Ph.D		■	
Michael Seibel		●	
Number of Meetings	6	6	3

● Committee member ■ Committee chair ▲ Financial expert

Audit Committee

Our audit committee consists of Messrs. Blair and Mylod, and Ms. Campbell, with Mr. Blair serving as chairperson. In March 2020, Mr. Mylod stepped down as chairperson of the audit committee and the board of directors selected Mr. Blair to serve as chairperson. Each of the members of the audit committee meets the requirements for independence of audit committee members under Nasdaq listing rules and SEC rules and regulations and also meets the financial literacy and sophistication requirements of the Nasdaq listing rules. Our board of directors has determined that Messrs. Blair and Mylod are audit committee financial experts within the meaning of Item 407(d) of Regulation S-K. Our audit committee is responsible for, among other things:

- selecting a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- helping to ensure the independence and overseeing performance of the independent registered public accounting firm;
- reviewing and discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management, internal audit and the independent registered public accounting firm, our interim and year-end operating results;
- reviewing our financial statements and our critical accounting policies and estimates;
- overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing and approving any amendments to the internal audit charter;
- reviewing the design, implementation, adequacy, and effectiveness of our internal controls;
- overseeing the performance of our internal audit department, which functionally reports to the audit committee;
- developing procedures for employees to submit concerns anonymously about questionable accounting, internal accounting controls, or audit matters;
- overseeing management's assessment and mitigation of enterprise risks;
- overseeing compliance with our code of business conduct and ethics;
- reviewing and approving related party transactions; and
- pre-approving all audit and all permissible non-audit services to be performed by the independent registered public accounting firm.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Our audit committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of Nasdaq. A copy of the charter for our audit committee is available on our website at investors.dropbox.com. During 2020, our audit committee held six meetings.

Compensation Committee

Our compensation committee consists of Dr. Rice, Ms. Peacock and Messrs. Mylod and Seibel, with Dr. Rice serving as chairperson. Mr. Schreier served as a member of our compensation committee until his resignation as a member of the board of directors in December 2020. Mr. Seibel was appointed to the compensation committee in December 2020. Dr. Rice, who will not be standing for re-election as a director at the Annual Meeting, will remain the chairperson and a member of the compensation committee until the Annual Meeting. Our board of directors selected Ms. Peacock to succeed Dr. Rice as chairperson of the compensation committee following the Annual Meeting. Each member of the compensation committee meets the requirements for independence for compensation committee members under the listing standards of Nasdaq. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or Rule 16b-3. Our compensation committee is responsible for, among other things:

- reviewing, approving, and determining, or making recommendations to our board of directors regarding, the compensation of our executive officers, including our chief executive officer;
- administering our equity compensation plans;
- reviewing, approving, and administering incentive compensation and equity compensation plans;
- reviewing and approving our overall compensation philosophy; and
- making recommendations regarding non-employee director compensation to our full board of directors.

Our compensation committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of Nasdaq. A copy of the charter for our compensation committee is available on our website at investors.dropbox.com. During 2020, our compensation committee held six meetings.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Ms. Campbell and Dr. Jacobs, with Dr. Jacobs serving as chairperson. In February 2020, Ms. Campbell was appointed to the nominating and corporate governance committee. Each member of the nominating and corporate governance committee meets the requirements for independence under the listing standards of Nasdaq. Our nominating and corporate governance committee is responsible for, among other things:

- identifying, evaluating, and making recommendations to our board of directors regarding nominees for election to our board of directors and its committees;
- overseeing the evaluation of the performance of our board of directors and of individual directors;
- considering and making recommendations to our board of directors regarding the composition of our board of directors and its committees;
- overseeing our corporate governance practices;
- contributing to succession planning; and
- developing and making recommendations to our board of directors regarding corporate governance guidelines and matters.

Our nominating and corporate governance committee operates under a written charter that satisfies the applicable Nasdaq listing standards. A copy of the charter for our nominating and corporate governance committee is available on our website at investors.dropbox.com. During 2020, our nominating and corporate governance committee held three meetings.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Attendance at Board and Stockholder Meetings

During our fiscal year ended December 31, 2020, our board of directors held thirteen meetings (including regularly scheduled and special meetings), and each director attended at least 75% of the aggregate of (i) the total number of meetings of our board of directors held during the period for which he or she has been a director and (ii) the total number of meetings held by all committees of our board of directors on which he or she served during the periods that he or she served.

Although we do not have a formal policy regarding attendance by members of our board of directors at annual meetings of stockholders, we strongly encourage, but do not require, our directors to attend. All directors who then served on the board attended our 2020 annual meeting of our stockholders.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has been an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our board of directors or compensation committee.

Considerations in Evaluating Director Nominees

Our nominating and corporate governance committee uses a variety of methods, including engaging the services of outside consultants and search firms, to identify and evaluate director nominees. In its evaluation of director candidates, our nominating and corporate governance committee considers the current size and composition, organization, and governance of our board of directors and the needs of our board of directors and the respective committees of our board of directors. Some of the qualifications that our nominating and corporate governance committee considers include, without limitation, issues of character, integrity, judgment, business experience, and diversity, and with respect to diversity, such factors as gender, race, ethnicity, sexual orientation, gender identity, differences in professional background, education, skill and other individual qualities and attributes that contribute to the total mix of viewpoints and experience represented on the board of directors, potential conflicts of interest and other commitments. Nominees must also have the highest personal and professional ethics and the ability to offer advice and guidance to our chief executive officer and other members of management based on proven achievement and leadership in the companies or institutions with which they are affiliated. Director candidates must understand the fiduciary responsibilities that are required of a member of our board of directors and have sufficient time available, in the judgment of our nominating and corporate governance committee, to perform all board of director and applicable committee responsibilities. Members of our board of directors are expected to prepare for, attend, and participate in all board of directors and applicable committee meetings. Our nominating and corporate governance committee may also consider such other factors as it may deem, from time to time, are in our and our stockholders' best interests.

The nominating and corporate governance committee considers the suitability of each director candidate, including current directors, in light of the current size and composition of our board. Although we do not maintain a specific policy with respect to board diversity, our board of directors believes that our board of directors should be a diverse body, and our nominating and corporate governance committee considers a broad range of backgrounds and experiences. In making determinations regarding nominations of directors, our nominating and corporate governance committee may take into account the benefits of diverse viewpoints. After completing its review and evaluation of director candidates, including incumbent directors, our nominating and corporate governance committee recommends to our full board of directors the director nominees for selection.

Board Evaluations

Our board of directors conducts an annual evaluation of the performance of individual directors, the board as a whole, and each of the board's standing committees, including an evaluation of the qualifications of individual members of the board and its committees. The evaluation is conducted via oral interviews by our lead independent director in close partnership with our in-house legal team, using as a basis for discussion a list of questions that are provided to each director in advance. The results of the evaluation and any recommendations for improvement are provided orally to our board of directors and the other standing committees of the board either by the lead independent director or a member of our in-house legal team.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Stockholder Recommendations and Nominations to the Board of Directors

Our nominating and corporate governance committee will consider director candidates recommended by stockholders holding at least one percent (1%) of the fully diluted capitalization of Dropbox, Inc. continuously for at least 12 months prior to the date of the submission of the recommendation, so long as such recommendations comply with our amended and restated certificate of incorporation, amended and restated bylaws, and applicable laws, rules and regulations, including those promulgated by the SEC. Our nominating and corporate governance committee will evaluate such recommendations in accordance with its charter, our amended and restated bylaws and our policies and procedures for director candidates, as well as the regular director nominee criteria described above. This process is designed to ensure that our board of directors includes members with diverse backgrounds, skills, and experience, including appropriate financial and other expertise relevant to our business. Eligible stockholders wishing to recommend a candidate for nomination should contact our Corporate Secretary or legal department in writing. Such recommendations must include information about the candidate, a statement of support by the recommending stockholder, evidence of the recommending stockholder's ownership of our capital stock, a signed letter from the candidate confirming willingness to serve on our board of directors and any additional information required by our amended and restated bylaws. Our nominating and corporate governance committee has discretion to decide which individuals to recommend for nomination as directors.

Under our amended and restated bylaws, stockholders may also directly nominate persons for our board of directors. Any nomination must comply with the requirements set forth in our amended and restated bylaws and should be sent in writing to our Corporate Secretary at Dropbox, Inc., 1800 Owens Street San Francisco, California 94158. To be timely for the 2022 annual meeting of stockholders, nominations must be received by our Secretary observing the same deadlines for stockholder proposals discussed above under *"What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors? – Stockholder Proposals."*

Communications with the Board of Directors

Interested parties wishing to communicate with non-management members of our board of directors may do so by writing and mailing the correspondence to our Corporate Secretary at Dropbox, Inc., 1800 Owens Street, San Francisco, California 94158. Each communication should set forth (i) the name and address of the stockholder, as it appears on our books, and if the shares of our common stock are held by a broker, bank or nominee, the name and address of the beneficial owner of such shares, and (ii) the class and number of shares of our common stock that are owned of record by the record holder and beneficially by the beneficial owner.

Our Corporate Secretary or legal department, in consultation with appropriate members of our board of directors as necessary, will review all incoming communications and, if appropriate, such communications will be forwarded to the appropriate member or members of our board of directors, or if none are specified, to the chairman of our board of directors.

This procedure does not apply to (i) communications to non-management directors from our officers or directors who are stockholders or (ii) stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act, which are discussed further in the section titled *"What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?—Stockholder Proposals"* described above in this proxy statement.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Our board of directors has adopted Corporate Governance Guidelines that address items such as the qualifications and responsibilities of our directors and director candidates, including independence standards, and corporate governance policies and standards applicable to us in general. In addition, our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our Corporate Governance Guidelines and our Code of Business Conduct and Ethics is posted on our website at investors.dropbox.com. We will post amendments to our Code of Business Conduct and Ethics or any waivers of our Code of Business Conduct and Ethics for directors and executive officers on the same website or in filings under the Exchange Act.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Role of Board in Risk Oversight Process

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, legal and compliance, and reputational, in the pursuit and achievement of our strategic objectives. We have designed and implemented processes to manage risk in our operations. Management is responsible for the day-to-day oversight and management of strategic, operational, legal and compliance, cybersecurity, and financial risks, while our board of directors, as a whole and assisted by its committees, has responsibility for the oversight of our risk management framework, which is designed to identify, assess, and manage risks to which our company is exposed, as well as to foster a corporate culture of integrity. Consistent with this approach, our board regularly reviews our strategic and operational risks in the context of discussions with management, question and answer sessions, and reports from the management team at each regular board meeting. Additionally, during the 2020 fiscal year, our board of directors regularly reviewed our response to the COVID-19 pandemic and the risks to our business associated with the pandemic. Our board of directors considered the impact of the pandemic on our financial performance, our business and strategies, our operations and the effect of the pandemic on our employees and the community. Our board also receives regular reports on all significant committee activities at each regular board meeting, and evaluates the risks inherent in significant transactions.

In addition, our board has tasked designated standing committees with oversight of certain categories of risk management. Our audit committee assists our board in fulfilling its oversight responsibilities with respect to risk management in the areas of internal control over financial reporting and disclosure controls and procedures, as well as legal and regulatory compliance. The audit committee further oversees our initiatives related to cybersecurity, including prevention and monitoring, as well as our enterprise-risk management program. Our audit committee also, among other things, discusses with management and the independent auditor guidelines and policies with respect to risk assessment and risk management. Our compensation committee assesses risks relating to our executive compensation plans and arrangements, and whether our compensation policies and programs have the potential to encourage excessive risk-taking. Our nominating and corporate governance committee assesses risks relating to our corporate governance practices, the independence of the board, and potential conflicts of interest. These committees provide regular reports on our risk management efforts to the full board.

Our board of directors believes its current leadership structure supports the risk oversight function of the board.

Corporate Responsibility Highlights

We are committed to conducting business in an ethical and transparent way, and to being accountable to our customers, our employees, our stockholders, the communities in which we operate, and all our other stakeholders for the manner in which we run our business. In addition, we believe that operating sustainably drives long-term stockholder value. During the 2020 fiscal year, we responded to the COVID-19 pandemic by supporting and protecting the health and safety of our employees, as well as assisting our communities. Described below are recent and ongoing efforts we have undertaken to benefit and support our various stakeholders, including in the face of challenges presented by the COVID-19 pandemic.

Human Capital Management

Employee Wellness and Development

- We are committed to supporting the well-being of our employees by providing 24 weeks of paid parental leave for all our employees, as well as mental and physical wellness benefits.
- The safety of our employees is paramount; we have a physical security policy applicable to all our employees in our global locations and our global physical security team is empowered to protect the safety of our employees in the event of emergencies or disasters.
- In addition, to protect the health and safety of our employees and to support their well-being during the COVID-19 pandemic:
 - We shifted to a remote-work model for substantially all of our employees.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

(continued)

- We established Global COVID-19 Workplace Health & Safety Standards for situations where it was necessary for employees or other personnel to enter our offices; these standards mandated locally-compliant health screening, social distancing and face covering practices and advised all visitors to follow personal health and hygiene best practices; these standards were reviewed and updated as we received further guidance from public health authorities.
- We provided allowances to employees to cover certain remote work expenses.
- We provided subsidized dependent care and access to dependent care resources, as well as supporting flexible working arrangements for our employees with caregiving obligations.
- We introduced a new program to help employees and their dependents manage their mental health through coaching, therapy, and on-demand resources.
- We have transitioned to our Virtual First work model, in which remote work is the primary experience for substantially all of our employees; as part of our Virtual First workforce strategy we strive to support our employees by:
 - Providing an annual allowance that gives employees the flexibility to focus this benefit towards what really matters to them; this may include health and wellness, family and caregiver support, productivity and ergonomics, learning and development or financial wellness.
 - Promoting work-life balance by empowering our employees to adopt flexible working arrangements and providing tools for efficient remote collaboration.
 - Continuing to provide opportunities for in-person collaboration, when safe to do so, at our “Dropbox Studios” locations.
- We conduct an annual employee satisfaction survey, the results of which are used by management to refine our employee wellness and development initiatives.

Diversity, Equity and Inclusion

- We publish our gender and ethnic diversity data, as well as our diversity, equity and inclusion initiatives on an annual basis.
- We provide resources and training to employees at all levels to ensure that we are hiring, promoting and retaining diverse teams.
- Our Employee Resource Groups, or ERGs, provide support for diverse members of our workforce by fostering an inclusive environment and providing professional development and community-building opportunities; each ERG has an executive-level sponsor who champions ERG initiatives and programs.
- We sponsor a number of professional development programs to support the advancement of underrepresented employees at Dropbox.
- Dropbox has routinely been cited as a leader in workplace diversity, having been listed in Fortune’s Best Workplaces for Diversity every year that the list has been published since 2016.

Data Privacy and Cybersecurity

- Being “Worthy of Trust” is one of our guiding values and as a reflection of that principle, we have established a cross-functional leadership team overseeing our information security and privacy practices, as well as identifying and proactively addressing security and privacy risks; this team reports periodically to the board of directors and the audit committee and comprises senior leaders from our legal, privacy, information security, information technology, infrastructure and compliance teams, including our Chief Privacy Officer, Head of Security and Chief Legal Officer.
- With oversight and guidance provided by the cross-functional leadership team, our information security and privacy teams continually refine our practices to address emerging security risks and changes in privacy regulations.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

(continued)

- We have appointed a Data Protection Officer (the “DPO”) who provides independent oversight of our privacy program and guidance on privacy issues; the DPO acts as the single point of contact for privacy-related requests for our customers in the European Union, as well as for regulatory authorities; our DPO reports periodically to management, the board of directors and the audit committee on privacy risks, as well as providing an independent assessment of our privacy program.
- We have a privacy policy that describes how we collect, use, store, share and protect customer data, as well as how customers can access and manage their personal data.
- We are committed to upholding the legal protections safeguarding the privacy of our customers’ data as well as outlining our policies and practices pertaining to government requests for customer data; as part of that commitment, we have publicly disclosed our guiding principles in responding to government requests and, since 2012, we have published quantitative data on government requests that we received.
- Several of our security and privacy management systems are independently audited and/or certified according to internationally-recognized standards:
 - Our information security management system is independently audited on an annual basis and is ISO 27001 certified.
 - Our privacy information management system is independently audited on an annual basis and is ISO 27701 certified.
 - Our cloud security controls are ISO 27017 certified and our cloud privacy and data protection controls are ISO 27018 certified.
- All employees are required to complete annual information security and privacy training and to comply with our information security and privacy policies, which are reviewed and updated annually.

Community

- We partner closely with the Dropbox Foundation (the “Foundation”) in its work with nonprofit organizations to defend human rights in communities around the world. We encourage Dropbox employees to support these organizations through skills-based volunteering, donations, and by raising awareness of their missions through internal talks and other advocacy.
- We empower our employees to give back to their communities by providing paid volunteer time off, matching a portion of employee donations to nonprofits and making product donations to nonprofit organizations nominated by our employees; in 2020, Dropbox employees benefited over 1,500 organizations through either donations or volunteering.
- In response to the COVID-19 pandemic we provided free access to paid versions of our products to K-12 educators and nonprofit and non-governmental organizations engaged in COVID-19 pandemic relief efforts.
- In response to the spotlight on racial injustice in the United States in 2020, we donated over \$1 million to organizations supporting racial justice via employee donations that were matched by us and our CEO.
- We are committed to supporting educational programs in our communities:
 - We partnered with San Francisco Education Fund’s “Circle the Schools” program to support public schools in San Francisco through employee volunteering and in-kind donations.
 - Many of our employees, through our partnership with Code Nation, have volunteered to teach coding skills to students attending under-resourced schools in New York City and San Francisco.

Environmental Sustainability

- We have announced company-wide environmental sustainability goals that we plan to accomplish by 2030:
 - Achieve carbon neutrality with respect to scope 1, scope 2 and scope 3 business travel emissions.
 - Use 100% renewable energy for our operations, including our data centers.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

- In addition, we are committed to supporting nonprofits focused on sustainability and climate change via the Foundation, empowering our employees to volunteer with organizations focused on environmental sustainability and supporting internal sustainability employee interest groups.

Business Conduct and Ethics

- We have a Code of Business Conduct and Ethics (the “Code”) that is applicable to all our employees, directors and independent contractors, as well as written policies addressing insider trading, anti-corruption, financial controls and maintaining confidentiality.
- The Code and our internal policies are reviewed and updated as necessary on an annual basis.
- All employees are required to complete a training course on the Code and related policies on an annual basis; additional trainings on select topics are provided to certain employees based on their roles.
- Trust is one of our core values and we seek to maintain that trust through empowering employees to report any potential violations of our Code, our policies or applicable laws through our confidential whistleblower hotline; we do not tolerate any retaliation against employees who report potential violations in good faith or participate in investigations into such violations.

Director Compensation

We have adopted a compensation policy for our non-employee directors. Under this director compensation policy, each non-employee director receives the cash and equity compensation for board services described below. We also reimburse our non-employee directors for reasonable, customary, and documented travel expenses to board meetings. The director compensation policy has been developed in consultation with Compensia, Inc., or Compensia, an independent national compensation consulting firm. Compensia provided recommendations and competitive non-employee director compensation data and analyses. We considered and discussed these recommendations and data, and considered the specific duties and committee responsibilities of particular directors. We adopted Compensia’s recommendations when we initially adopted the director compensation policy in connection with our initial public offering, and we believe the policy provides our non-employee directors with reasonable and appropriate compensation that is commensurate with the services they provide and competitive with compensation paid by our peer group companies to their non-employee directors. Compensia has also advised on subsequent amendments to the policy. Our director compensation policy follows the principles listed below.

Principle	Description
Pay Mix	Our director compensation policy consists of a balance of cash and equity, with an emphasis on equity over cash, in order to better align the interests of our directors with that of our stockholders.
Total Compensation Limit	Our director compensation policy includes a maximum annual limit of \$1,200,000 of cash compensation and equity awards that may be paid, issued, or granted to a non-employee director in any fiscal year. The maximum limit does not reflect the intended size of any potential compensation or equity awards to our non-employee directors. Any cash compensation paid or equity awards granted to a person for his or her services as an employee, or for his or her services as a consultant (other than as a non-employee director), will not count for purposes of the limitation. For purposes of this limitation, the value of equity awards is based on the grant date fair value (determined in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”).
Regular Review	With advice from Compensia, our compensation committee regularly reviews the amount and form of director compensation to ensure consistency with prudent governance practices and comparability with our peer group.
Board Leadership Compensation	Our director compensation policy provides additional compensation for leadership positions on the board of directors, including lead independent director and committee chair roles, to account for the added time and effort associated with these positions.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Components of Compensation

Our director compensation policy consists of a cash component and an equity component. There are no per-meeting attendance fees for attending board meetings. Directors who are also our employees receive no additional compensation for their service as directors. The components of our director compensation policy, as currently in effect, are described below.

Component	Description
Cash Compensation	
Annual Cash Retainer	\$50,000, paid quarterly in arrears on a prorated basis.
Committee and Board Leadership Compensation	Under the policy in fiscal 2020, each non-employee director was entitled to receive the following cash compensation for their additional services: • \$35,000 per year for service as a lead independent director; • \$30,000 per year for service as chair of the audit committee; • \$12,500 per year for service as a member of the audit committee; • \$20,000 per year for service as chair of the compensation committee; • \$10,000 per year for service as a member of the compensation committee; • \$15,000 per year for service as chair of the nominating and corporate governance committee; and • \$5,000 per year for service as a member of the nominating and corporate governance committee. Directors who serve as the chair of a committee will receive only the annual fee as the chair of the committee and not any additional fees for serving as a member of that committee.
Equity Compensation	
Initial Award	Each person who first becomes a non-employee director receives, on the first trading date or after the date on which the person first becomes a non-employee director, an initial award of restricted stock units (“RSUs”), or the Initial Award. An employee director who becomes a non-employee director due to termination of employment will not entitle such director to an Initial Award. <u>Number of Shares</u> The Initial Award covers a number of shares of our Class A common stock having a grant date fair value (determined in accordance with GAAP) equal to \$250,000 multiplied by the fraction obtained by dividing (a) the number of full months during the period beginning on the date the person first becomes a non-employee director and ending on the one-year anniversary of the date of the then-most recent annual meeting of the company’s stockholders, or the Initial Award Vesting Period by (b) 12, rounded to the nearest whole share. <u>Vesting of Award</u> The Initial Award vests on the last day of the Initial Award Vesting Period or, if earlier, on the day before the annual meeting of our stockholders that follows the grant date of the Initial Award, subject to the non-employee director continuing to provide services to us through the applicable vesting date.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

Component	Description
Annual Award	Each non-employee director will automatically receive, on the date of each annual meeting of stockholders following the effective date of the policy, an annual award of RSUs, each of which we refer to as an Annual Award. <u>Number of Shares</u> Each Annual Award covers a number of shares of our Class A common stock having a grant date fair value (determined in accordance with GAAP) of \$250,000, rounded to the nearest whole share. <u>Vesting of Award</u> The Annual Award will vest on the one-year anniversary of the grant date of the Annual Award or, if earlier, the day before our annual meeting of stockholders that follows the grant date of the Annual Award, subject to the non-employee director continuing to provide services to us through the applicable vesting date.
Deferral of Awards	Each non-employee director may elect to defer the delivery of the settlement of any Initial Award or Annual Award that would otherwise be delivered to such non-employee director on or following the date such award vests pursuant to the terms of a deferral election such non-employee director makes in accordance with the policy.
Change in Control	In the event of a “change in control” (as defined in our 2018 Equity Incentive Plan), each non-employee director will fully vest in his or her outstanding company equity awards, including any Initial Award or Annual Award, provided that the non-employee director continues to be a non-employee director through such date.

2020 Compensation

The following table provides information regarding compensation of our non-employee directors for their service as directors, for the fiscal year ended December 31, 2020. Directors who are also our employees receive no additional compensation for their service as directors. During 2020, Messrs. Houston and Ferdowsi were employees and executive officers of the company and therefore, did not receive compensation as directors. See “*Executive Compensation*” for additional information regarding Mr. Houston’s compensation. Mr. Ferdowsi was not a named executive officer in 2020 and resigned as a member of the board and as an officer of the company in March 2020.

Name	Fees Paid or Earned in Cash (\$)	Stock Awards (\$) ⁽¹⁾⁽²⁾	All Other Compensation (\$)	Total (\$)
Donald W. Blair	102,664	251,076	—	353,740
Lisa Campbell	66,831	251,076	—	317,907
Paul E. Jacobs	62,650	251,076	—	313,726
Robert J. Mylod, Jr.	76,612	251,076	—	327,688
Karen Peacock	60,000	251,076	—	311,076
Condoleezza Rice	78,224	251,076	—	329,300
R. Bryan Schreier ⁽³⁾	56,639	251,076 ⁽⁴⁾	—	307,715
Michael Seibel ⁽⁵⁾	3,607	98,384	—	101,991
Margaret C. Whitman ⁽⁶⁾	23,764	—	—	23,764

⁽¹⁾ Amounts shown do not reflect compensation actually received by the director, and there can be no assurance that these amounts will ever be realized by the non-employee directors. Instead, the amount shown is the grant date fair value of the RSU awards granted in fiscal 2020 computed in accordance with ASC Topic 718 — Compensation — Stock Compensation (“**ASC Topic 718**”), disregarding forfeiture assumptions.

⁽²⁾ 100% of the shares of our Class A common stock underlying the RSUs vest on May 21, 2021 or the day before the next annual meeting of our stockholders, if earlier, subject to the director’s continued service with us. See “*Director Compensation*” above.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE (continued)

- ⁽³⁾ Mr. Schreier resigned as a member of the board of directors, effective December 10, 2020 and as such, his fees were prorated for the portion of 2020 in which he served as a director, as reflected in the amount set forth in the table above.
- ⁽⁴⁾ 11,297 unvested RSUs, representing a grant date fair value of \$251,076, were forfeited upon Mr. Schreier's resignation from the board of directors on December 10, 2020.
- ⁽⁵⁾ Mr. Seibel joined our board of directors in December 2020, and therefore his fees and equity awards were prorated for the portion of 2020 in which he served as a director, as reflected in the amount set forth in the table above.
- ⁽⁶⁾ Ms. Whitman did not stand for re-election as a director at the 2020 annual meeting of stockholders and as such, her term as director ended effective as of May 21, 2020 and her fees were prorated for the portion of 2020 in which she served as a director, as reflected in the amount set forth in the table above.

The following table lists all outstanding equity awards held by non-employee directors as of December 31, 2020:

Name	Date of Grant ⁽¹⁾	Number of Shares Underlying Unvested Stock Awards (#)
Donald W. Blair	5/21/2020	11,297
Lisa Campbell	5/21/2020	11,297
Paul E. Jacobs	5/21/2020	11,297
Robert J. Mylod, Jr.	5/21/2020	11,297
Karen Peacock	5/21/2020	11,297
Condoleezza Rice	5/21/2020	11,297
Michael Seibel ⁽²⁾	12/11/2020	4,632

⁽¹⁾ 100% of the shares of our Class A common stock underlying the RSUs vest on May 21, 2021 or the day before the next annual meeting of our stockholders, if earlier, subject to the director's continued service with us. See "Director Compensation" above.

⁽²⁾ Mr. Seibel joined our board of directors in December 2020, and therefore the number of shares covered by his equity award was prorated for the portion of 2020 in which he served as a director, as reflected in the figure set forth in the table above.

PROPOSAL NO. 1—ELECTION OF DIRECTORS

As of March 15, 2021, our board of directors consisted of eight directors. Until the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, we will have a single class of directors with each director elected for a one-year term and until their successor is duly elected and qualified, or until their earlier resignation or removal.

Nominees

Our nominating and corporate governance committee has recommended, and our board of directors has approved, Andrew W. Houston, Donald W. Blair, Lisa Campbell, Paul E. Jacobs, Robert J. Mylod, Jr., Karen Peacock and Michael Seibel as nominees for election as directors at the Annual Meeting. If elected, each of the nominees will serve as directors until the 2022 annual meeting of stockholders and until their successors are duly elected and qualified. Each of the nominees is currently a director of our company, although Mr. Seibel is standing for election by our stockholders for the first time. For information concerning the nominees, please see “*Board of Directors and Corporate Governance*.” We expect that each of Dr. Jacobs, Messrs. Houston, Blair, Mylod, and Seibel, and Mss. Campbell and Peacock will accept such nomination; however, in the event that a director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by our board of directors to fill such vacancy.

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted “FOR” the election of Dr. Jacobs, Messrs. Houston, Blair, Mylod, and Seibel, and Mss. Campbell and Peacock. If you are a street name stockholder and you do not give voting instructions to your broker or nominee, your broker will leave your shares unvoted on this matter.

Vote Required

Each director is elected by a plurality of the votes of the shares present virtually or represented by proxy at the meeting and entitled to vote on the election of directors at the Annual Meeting. “Plurality” means that the seven nominees who receive the largest number of votes cast “For” such nominees are elected as directors. As a result, any shares not voted “For” a particular nominee (whether as a result of a withhold vote or a broker non-vote) will not be counted in such nominee’s favor and will have no effect on the outcome of the election.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” EACH OF THE NOMINEES NAMED ABOVE.

PROPOSAL NO. 2—RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our audit committee has appointed Ernst & Young LLP, an independent registered public accounting firm, to audit our consolidated financial statements for our fiscal year ending December 31, 2021. Ernst & Young LLP has served as our independent registered public accounting firm since 2013.

At the Annual Meeting, our stockholders are being asked to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021. Our audit committee is submitting the appointment of Ernst & Young LLP to our stockholders because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate governance. Notwithstanding the appointment of Ernst & Young LLP, and even if our stockholders ratify the appointment, our audit committee, in its discretion, may appoint another independent registered public accounting firm at any time during our fiscal year if our audit committee believes that such a change would be in the best interests of our company and our stockholders. If our stockholders do not ratify the appointment of Ernst & Young LLP, our board of directors may reconsider the appointment. Representatives of Ernst & Young LLP will be present at the Annual Meeting, and they will have an opportunity to make a statement and will be available to respond to appropriate questions from our stockholders.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and other services rendered to our company by Ernst & Young LLP for our fiscal years ended December 31, 2020 and 2019.

	2020	2019
Audit Fees ⁽¹⁾	\$ 3,082,000	\$ 3,203,000
Audit-Related Fees ⁽²⁾	\$ 711,000	\$ 571,000
Tax Fees ⁽³⁾	\$ 126,000	\$ 321,000
All Other Fees ⁽⁴⁾	\$ 6,000	\$ 6,000
Total Fees	\$ 3,925,000	\$ 4,101,000

⁽¹⁾ Consists of fees billed for professional services rendered in connection with the audit of our consolidated financial statements, audit of our internal controls over financial reporting, reviews of our quarterly consolidated financial statements, related accounting consultations, and statutory audits of our international subsidiaries.

⁽²⁾ Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements, audit of our internal controls over financial reporting, and not reported under "Audit Fees". For fiscal 2019 and fiscal 2020, this includes fees for professional services with respect to the Statement on Standards for Attestation Engagements (SSAE) No. 16 and other service organization control related examinations, certifications, and assessments, and for fiscal 2019, due diligence services related to mergers and acquisitions.

⁽³⁾ Tax Fees consist of fees for professional services for domestic and international tax advisory services.

⁽⁴⁾ Consists of aggregate fees billed for products and services provided by the independent registered public accounting firm other than those disclosed above, which relate to subscription fees paid for access to online accounting research software applications.

PROPOSAL NO. 2—RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (continued)

Auditor Independence

In our fiscal year ended December 31, 2020, there were no other professional services provided by Ernst & Young LLP, other than those listed above, that would have required our audit committee to consider their compatibility with maintaining the independence of Ernst & Young LLP.

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our audit committee has established a policy governing our use of the services of our independent registered public accounting firm. Under this policy, our audit committee is required to pre-approve all services performed by our independent registered public accounting firm in order to ensure that the provision of such services does not impair the public accountants' independence. All services provided by Ernst & Young LLP for our fiscal years ended December 31, 2019 and 2020 were pre-approved by our audit committee.

Vote Required

The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2021 requires the affirmative vote of a majority of the voting power of the shares of our common stock present virtually or by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will have the effect of a vote against this proposal, and broker non-votes will have no effect.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

REPORT OF THE AUDIT COMMITTEE

The audit committee is a committee of the board of directors comprised solely of independent directors as required by Nasdaq listing standards and SEC rules and regulations. The composition of the audit committee, the attributes of its members and the responsibilities of the audit committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. With respect to Dropbox's financial reporting process, Dropbox's management is responsible for (1) establishing and maintaining internal controls and (2) preparing Dropbox's consolidated financial statements. Dropbox's independent registered public accounting firm, Ernst & Young LLP ("**Ernst & Young**"), is responsible for performing an independent audit of Dropbox's consolidated financial statements and the effectiveness of the company's internal control over financial reporting. It is the responsibility of the audit committee to oversee these activities. It is not the responsibility of the audit committee to prepare Dropbox's financial statements. These are the fundamental responsibilities of management. In the performance of its oversight function, the audit committee has:

- reviewed and discussed the audited consolidated financial statements with management, internal audit and Ernst & Young;
- discussed with Ernst & Young the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board ("**PCAOB**"); and
- received the written disclosures and the letter from Ernst & Young required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with Ernst & Young its independence.

Based on the audit committee's review and discussions with management and Ernst & Young, the audit committee recommended to the board of directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for filing with the SEC.

Respectfully submitted by the members of the audit committee of the board of directors:

Donald W. Blair (Chair)

Robert J. Mylod, Jr.

Lisa Campbell

This report of the audit committee is required by the SEC and, in accordance with the SEC's rules, will not be deemed to be part of or incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended ("**Securities Act**"), or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed "soliciting material" or "filed" under either the Securities Act or the Exchange Act.

PROPOSAL NO. 3—ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “**Dodd-Frank Act**”) and SEC rules, we are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed pursuant to Section 14A of the Exchange Act. This proposal, commonly known as a “Say-on-Pay” proposal, gives our stockholders the opportunity to express their views on our named executive officers’ compensation as a whole. This vote is not intended to address any specific item of compensation or any specific named executive officer, but rather the overall compensation of all of our named executive officers and the philosophy, policies and practices described in this proxy statement.

The Say-on-Pay vote is advisory, and therefore is not binding on us, our compensation committee, or our board of directors. The Say-on-Pay vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which our compensation committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our board of directors and our compensation committee value the opinions of our stockholders. To the extent there is any significant vote against the compensation of our named executive officers as disclosed in this proxy statement, we will endeavor to communicate with stockholders to better understand the concerns that influenced the vote and consider our stockholders’ concerns, and our compensation committee will evaluate whether any actions are necessary to address those concerns.

We believe that the information provided in the section titled “*Executive Compensation*,” and in particular the information discussed in the section titled “*Executive Compensation—Compensation Philosophy*,” demonstrates that our executive compensation program was designed appropriately and is working to ensure management’s interests are aligned with our stockholders’ interests to support long-term value creation. Accordingly, we ask our stockholders to vote “FOR” the following resolution at the Annual Meeting:

“RESOLVED, that the stockholders approve, on an advisory basis, the compensation paid to our named executive officers, as disclosed in the proxy statement for the Annual Meeting pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, compensation tables and narrative discussion and other related disclosure.”

Vote Required

The approval, on an advisory basis, of the compensation of our named executive officers, requires the affirmative vote of a majority of the voting power of the shares of our common stock present virtually or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions will have the effect of a vote against this proposal, and broker non-votes will have no effect.

As an advisory vote, the result of this proposal is non-binding. Although the vote is non-binding, our board of directors and our compensation committee value the opinions of our stockholders and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

We currently hold our advisory vote on executive compensation annually. Accordingly, the next advisory vote on executive compensation will be held at our 2022 annual meeting of stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

EXECUTIVE OFFICERS

The following table identifies certain information about our executive officers as of March 15, 2021. Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Name	Age	Position
Andrew W. Houston	38	Chief Executive Officer, Co-Founder, and Chairman
Timothy Regan ⁽¹⁾	44	Chief Financial Officer
Bart E. Volkmer ⁽²⁾	46	Chief Legal Officer
Timothy Young ⁽³⁾	39	President

⁽¹⁾ Mr. Regan has served as our Chief Financial Officer since September 2020, and previously served as our Chief Accounting Officer from December 2016 until September 2020.

⁽²⁾ Mr. Volkmer has served as our Chief Legal Officer since January 2020, and previously served as our General Counsel from June 2016 until January 2020.

⁽³⁾ Mr. Young has served as our President since November 2020, and previously served as our Senior Vice President and General Manager, Core Dropbox from October 2019 until November 2020.

For Mr. Houston's biography, see "*Nominees for Director*."

Timothy Regan. Timothy Regan, CPA, has served as Dropbox's Chief Financial Officer since September 2020. Previously, he served as Dropbox's Chief Accounting Officer from December 2016 to September 2020. From January 2011 to December 2016, he served as VP Finance Controller at Pandora Media, Inc., or Pandora. Prior to joining Pandora, he held senior positions at Dolby Laboratories, Inc., and Ernst and Young, LLP. Mr. Regan received his Bachelor of Arts in Accounting from Georgetown University in 1999 and his Master of Business Administration from the University of California, Berkeley Haas School of Business, in 2011.

Bart E. Volkmer. Mr. Volkmer has served as our Chief Legal Officer since January 2020. From June 2016 to January 2020, Mr. Volkmer served as our General Counsel and from August 2011 to June 2016, Mr. Volkmer served as our Head of Litigation & Regulatory. Prior to joining Dropbox, Mr. Volkmer practiced law at Wilson Sonsini Goodrich & Rosati, a law firm, from 2003 to 2011, where he counseled early-stage and established technology companies. Mr. Volkmer holds a J.D. from Santa Clara University School of Law and a B.A. in English from Creighton University.

Timothy Young. Timothy Young has served as our President since November 2020. From October 2019 to November 2020, Mr. Young served as our Senior Vice President and General Manager, Core Dropbox. Mr. Young has extensive experience managing, growing and investing in technology companies. Prior to joining Dropbox and since January 2015, Mr. Young has served as a Founder of Hidden Hand Capital, which invests in early stage technology companies. Prior to founding Hidden Hand Capital, from May 2011 to September 2014, he was Vice President of Product and Engineering at VMware, a cloud infrastructure and digital workspace company, where he led product development and strategic product planning for cloud and mobile applications. From June 2005 to May 2011, he was the Founder and CEO of Socialcast, which was acquired by VMware. From December 2009 to December 2010, he was a Co-Founder of about.me, which was acquired by AOL. Mr. Young attended the University of California, Riverside, where he studied Computer Science.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis describes the material elements of our executive compensation program during 2020. It also provides an overview of our executive compensation philosophy, including our principal compensation policies and practices. Finally, it analyzes how and why our compensation committee arrived at the specific compensation decisions for our executive officers, including our named executive officers in 2020, and discusses the key factors that our compensation committee considered in determining their compensation.

Our named executive officers for 2020 were:

Named Executive Officer	Title
Andrew W. Houston	Chief Executive Officer
Timothy Regan	Chief Financial Officer
Timothy Young	President
Bart E. Volkmer	Chief Legal Officer
Ajay V. Vashee⁽¹⁾	Former Chief Financial Officer
Olivia Nottebohm⁽²⁾	Former Chief Operating Officer

⁽¹⁾ Mr. Vashee resigned from the company in October 2020.

⁽²⁾ Ms. Nottebohm resigned from the company in February 2021.

Executive Summary

Who We Are

We were founded in 2007 with a simple idea: Life would be a lot better if everyone could access their most important information anytime from any device. Over the past decade, we've largely accomplished that mission by building tools to help people work from anywhere—and along the way we recognized that for most of our users, sharing and collaborating on Dropbox was even more valuable than storing files. We serve more than 700 million registered users across 180 countries.

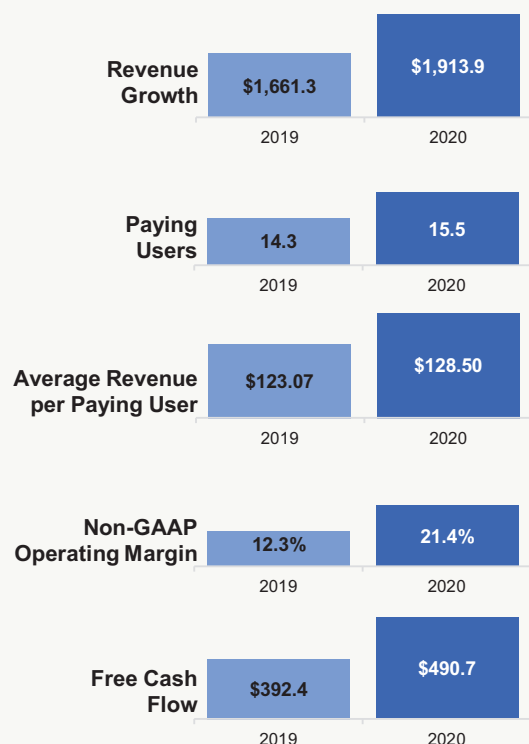
Our market opportunity has grown as we've expanded from keeping files in sync to keeping teams in sync. Today, Dropbox is well-positioned to reimagine the way work gets done. We're focusing on reducing the inordinate amount of time and energy the world spends on “work about work”—tedious tasks like searching for content, switching between applications, and managing workflows. Dropbox breaks down silos by centralizing the flow of information between the products and services our users prefer, even if they're not our own. In a world where using technology at work can be fragmented and distracting, Dropbox makes it easy to focus on the work that matters.

The popularity of our platform drives viral growth, which has allowed us to scale rapidly and efficiently. We've built a thriving global business with 15.48 million paying users.

EXECUTIVE COMPENSATION (continued)

2020 Business Results and Business Strategy

Business Results



*A reconciliation of GAAP to non-GAAP results is provided in [Appendix A](#).

Business Strategy

- Since the beginning, we've focused on simplifying the lives of our users. In a world where business software can be frustrating to use, challenging to integrate, and expensive to sell, we take a different approach.
- We've built one of the largest collaboration platforms in the world, with more than 4.5 billion connections to shared content. We cater to the needs of dynamic, dispersed teams. The overwhelming majority of our customers use Dropbox to share and collaborate. As we continue to grow, more users benefit from frictionless sharing, and powerful network effects increase the utility and stickiness of our platform.
- Every year, millions of users sign up for Dropbox at work. Bottom-up adoption within organizations has been critical to our success as users increasingly choose their own tools at work. We generate over 90% of our revenue from self-serve channels—users who purchase a subscription through our app or website.
- Dropbox allows individuals, teams, and organizations to collaborate more effectively and focus on the work that matters. Anyone can sign up for free through our website or app, and upgrade to a paid subscription plan for premium features.

EXECUTIVE COMPENSATION (continued)

Executive Compensation Policies and Practices

Our compensation committee evaluates our executive compensation program on a regular basis to ensure that it is consistent with our short-term and long-term goals given the dynamic nature of our business and the competitive market in which we compete for executive talent. The following summarizes our executive compensation program and related policies and practices:

What we do

- ✓ **Maintain an Independent Compensation Committee.** The compensation committee consists solely of independent directors who establish our compensation practices.
- ✓ **Retain an Independent Compensation Advisor.** The compensation committee has engaged its own compensation consultant to provide information, analysis, and other advice on executive compensation independent of management. This consultant performed no other consulting or other services for us in 2020.
- ✓ **Annual Executive Compensation Review.** The compensation committee conducts an annual review of our compensation strategy and a review of our compensation-related risk profile to ensure that our compensation programs do not encourage excessive or inappropriate risk-taking.
- ✓ **Compensation At-Risk.** Our executive compensation program is designed so that a significant portion of our executive officer's compensation is "at risk" based on corporate performance, as well as equity-based, to align the interests of our executive officers and stockholders.
- ✓ **Use a Pay-for-Performance Philosophy.** The majority of our executive officers' compensation is directly linked to corporate performance; we also structure their target total direct compensation opportunities with a significant long-term equity component, thereby making a substantial portion of each executive officer's target total direct compensation dependent upon our stock price and/or total stockholder return.
- ✓ **Succession Planning.** We review the risks associated with our key executive officer positions to ensure adequate succession plans are in place.

What we don't do

- ✗ **No Guaranteed Bonuses.** We do not provide guaranteed bonuses to our executive officers.
- ✗ **No Executive Retirement Plans.** We do not offer defined benefit pension plans or any non-qualified deferred compensation plans or arrangements to our executive officers, other than the plans and arrangements that are available to all employees.
- ✗ **No Hedging or Pledging.** We prohibit our employees (including our executive officers) and the non-employee members of our board of directors from hedging or pledging our securities.
- ✗ **No Tax Payments on Perquisites.** We do not provide any tax reimbursement payments (including "gross-ups") on any perquisites or other personal benefits.
- ✗ **No Excise Tax Payments on Future Post-Employment Compensation Arrangements.** We do not provide any excise tax reimbursement payments (including "gross-ups") on payments or benefits contingent upon a change in control of the company.
- ✗ **No Special Welfare or Health Benefits.** We do not provide our executive officers with any welfare or health benefit programs, other than participation in our broad-based employee programs. All highly compensated employees are eligible for special long-term disability.

Executive Compensation Philosophy and Objectives

Our executive compensation program is guided by our overarching philosophy of paying for demonstrable performance. Consistent with this philosophy, we have designed our executive compensation program to achieve the following primary objectives:

- Provide market-competitive compensation and benefit levels that will attract, retain, motivate, and reward a highly-talented team of executive officers within the context of responsible cost management;
- Establish a direct link between our financial, operational, and strategic objectives and results, as well as our values, and the compensation of our executive officers; and

EXECUTIVE COMPENSATION (continued)

- Align the interests and objectives of our executive officers with those of our stockholders by linking the long-term equity incentive compensation opportunities to stockholder value creation and their cash incentives to our annual performance.

Pay-for-Performance

We believe our executive compensation program is reasonable, competitive, and appropriately balances the goals of attracting, motivating, rewarding, and retaining our executive officers with the goal of aligning their interests with those of our stockholders. To achieve this alignment and to motivate and reward individual initiative and effort, a substantial portion of our executive officers' target annual total direct compensation opportunity is both variable in nature and "at-risk."

We emphasize variable compensation that appropriately rewards our executive officers, including our named executive officers, through two separate compensation elements:

- Our annual cash bonus plan provides cash payments if our executive officers produce short-term financial, operational, and strategic results that meet or exceed the objectives set forth in our annual operating plan.
- Equity-based awards, which represent a majority of our executive officers' target total direct compensation opportunities, the value of which depends entirely on the value of our common stock, incentivize our executive officers to build sustainable long-term value for the benefit of our stockholders.

These variable pay elements are intended to result in a substantial portion of our executive officers' annual target total direct compensation being contingent (rather than fixed) in nature, with the amounts ultimately payable subject to variability above or below target levels commensurate with our actual performance.

We believe that this design provides balanced incentives for our executive officers to drive financial performance and long-term growth. Our compensation committee regularly evaluates the relationship between the reported values of the equity awards granted to our executive officers and the amount of realizable and realized value from such awards in subsequent years.

Compensation-Setting Process

Role of Compensation Committee and the Stock Committee

The compensation committee discharges many of the responsibilities of our board of directors relating to the compensation of our executives and non-employee directors. The compensation committee has overall responsibility for overseeing our compensation and benefits policies generally, and overseeing and evaluating the compensation plans, policies and practices applicable to our chief executive officer and other executive officers.

The compensation committee makes all final decisions regarding the compensation of our chief executive officer and our other executive officers.

In carrying out its responsibilities, the compensation committee evaluates our compensation policies and practices with a focus on the degree to which these policies and practices reflect our executive compensation philosophy, develops strategies and makes decisions that it believes further our philosophy or align with developments in executive compensation practices, and reviews the performance of our executive officers.

The compensation committee's authority, duties, and responsibilities are further described in its charter, which is reviewed annually and revised and updated as warranted. The charter is available on our investor relations website at investors.dropbox.com.

We also formed a stock committee, which is currently composed of our Chief Financial Officer, our Chief People Officer, and a non-employee director appointed by our board. Mr. Schreier previously served as the non-employee director on the stock committee until his resignation from our board of directors in December 2020, at which time Ms. Peacock was appointed to serve as the non-employee director on the stock committee. Ms. Nottebohm, our former Chief Operating Officer, also previously served on the stock committee until her resignation from the company in February 2021, at which time our Chief People Officer was appointed to serve on the stock committee. The stock committee has authority to grant equity awards to (a) employees who hold a title below vice president and (b) consultants subject to certain limitations established from time to time by the compensation committee.

Role of Compensation Consultant

The compensation committee engages an external compensation consultant to assist the committee by providing information, analysis, and other advice relating to our executive compensation program and the decisions resulting from its annual executive

EXECUTIVE COMPENSATION (continued)

compensation review. The compensation consultant reports directly to the compensation committee and its chair, and serves at the discretion of the compensation committee, which reviews the engagement annually.

For 2020, the compensation committee retained Compensia to serve as its compensation advisor to advise on executive and director compensation matters, including competitive market pay practices for our executive officers, and data analysis and selection of the compensation peer group.

During 2020, Compensia attended compensation committee meetings and provided the following services:

- Consulted with the compensation committee chair and other members between compensation committee meetings;
- Provided competitive market data based on the compensation peer group for our executive officer positions, and evaluation of how the compensation we pay our executive officers compares both to our performance and to how the companies in our compensation peer group compensate their executives;
- Provided competitive market data based on the compensation peer group for non-employee directors, and evaluation of how the compensation we pay our non-employee directors compares to companies in our compensation peer group;
- Reviewed and analyzed base salary levels, annual incentive bonus opportunities, and long-term equity incentive compensation opportunities of our executive officers;
- Assessed executive compensation trends within our industry, and updates on corporate governance and regulatory issues and developments;
- Reviewed our executive compensation disclosure;
- Assessed compensation risk to determine whether our compensation policies and practices are reasonably likely to have a material adverse impact on the company; and
- Supported on other *ad hoc* matters throughout the year.

Compensia did not provide any services to us other than the consulting services to the compensation committee. The compensation committee regularly reviews the objectivity and independence of the advice provided by its compensation consultant on executive compensation matters. The compensation committee has evaluated Compensia's engagement, and based on the six factors for assessing independence and identifying potential conflicts of interest that are set forth in Exchange Act Rule 10C-1(b)(4), Rule 5605(d)(3)(D) of the Nasdaq Marketplace Rules, and such other factors as were deemed relevant under the circumstances, has determined that its relationship with Compensia and the work of Compensia on behalf of the compensation committee did not raise any conflict of interest, and that Compensia is independent as defined in Rule 5605(a)(2) of the Nasdaq Marketplace Rules.

Role of Management

In discharging its responsibilities, the compensation committee also works with members of our management, including our chief executive officer. Our management assists the compensation committee by providing information on corporate and individual performance, competitive market data, and management's perspective and recommendations on compensation matters.

Typically, our chief executive officer makes recommendations to the compensation committee regarding compensation matters, including adjustments to annual cash compensation, long-term equity incentive compensation opportunities, and program structures, for our executive officers, except with respect to his own compensation. At the beginning of each year, our chief executive officer reviews the performance of our other executive officers, including our other named executive officers, based on such individual's level of success in accomplishing the business objectives established for him or her for the prior year and their overall performance during that year, and then shares these evaluations with, and makes recommendations to, the compensation committee for each element of compensation as described above.

The compensation committee reviews and discusses these recommendations and proposals with our chief executive officer and uses them as one factor in determining and approving the compensation for our executive officers.

EXECUTIVE COMPENSATION (continued)

Our chief executive officer also attends meetings of our board of directors and the compensation committee at which executive compensation matters are addressed, except with respect to discussions involving his own compensation. Decisions with respect to our chief executive officer's compensation are made by our compensation committee, which is comprised entirely of independent members of our board of directors.

Competitive Positioning

For purposes of assessing our executive compensation against the competitive market, the compensation committee reviews and considers the compensation levels and practices of a select group of peer companies. This compensation peer group consists of technology companies that are similar to us in terms of revenue, market capitalization, geographical location, and industry sector.

The companies in the compensation peer group for 2020 were approved in November 2019 on the basis of their similarity to us, as determined using the following criteria:

- revenue – approximately 0.4x to approximately 2.5x our last four fiscal quarter revenue of approximately \$1.52 billion (approximately \$609 million to \$3.8 billion);
- market capitalization – approximately 0.25x to approximately 4.0x our market capitalization of approximately \$8.2 billion (approximately \$2.0 billion to \$33 billion);
- industry sector – internet software and services, software, communication equipment, and certain SaaS companies not classified as such; and
- relevance – software-as-a-service model or product similarity.

In selecting the 2020 compensation peer group, we chose companies that resulted in us being near the median of the group, in terms of both revenue and market capitalization.

2019 Compensation Peer Group	Changes to Peer Group	2020 Compensation Peer Group
Autodesk		Autodesk
Box		Box
DocuSign	Added:	DocuSign
Fortinet	Guidewire Software	Guidewire Software
LogMeIn	Okta	LogMeIn
Nutanix	Proofpoint	Nutanix
Palo Alto Networks	RingCentral	Okta
ServiceNow	Twilio	Palo Alto Networks
Snap	Zendesk	Proofpoint
Splunk		RingCentral
Square	Removed:	ServiceNow
Tableau Software	Fortinet	Splunk
Twitter	Snap	Square
The Ultimate Software Group	Tableau Software	Twilio
Veeva Systems	The Ultimate Software Group	Twitter
Workday	Zillow Group	Veeva Systems
Zillow Group		Workday
		Zendesk

The compensation practices of the compensation peer group were the primary guide used by the compensation committee in 2020 to compare the competitiveness of each compensation element and target total direct compensation (base salary, target annual cash bonus opportunities, and long-term equity incentive compensation).

To analyze the compensation practices of our compensation peer group, Compensia gathered data from public filings (primarily proxy statements) of the peer group companies, as well as from the Radford Global Technology Survey. This market data was then used as a reference point for the compensation committee to assess our current compensation levels in the course of its deliberations on compensation forms and amounts. The compensation committee does not engage in formal benchmarking against other companies' compensation programs or practices to establish our compensation levels or make specific compensation recommendations with respect to our executive officers, including our named executive officers.

EXECUTIVE COMPENSATION (continued)

The compensation committee reviews our compensation peer group each year and adjusts its composition if warranted, taking into account changes in both our business and the businesses of the companies in the peer group.

Compensation Setting

We review the base salary levels, annual cash bonus opportunities, and long-term equity incentive compensation opportunities of our executive officers, including our named executive officers, and all related performance criteria at the beginning of each year, or more frequently as warranted.

We do not establish a specific target for formulating the target total direct compensation opportunities of our executive officers, including our named executive officers.

In making decisions about the compensation of our executive officers, the compensation committee relies primarily on its general experience and subjective considerations of various factors, including the following:

- | | |
|--|--|
| <ul style="list-style-type: none">• Our executive compensation program objectives;• Our performance against the financial, operational, and strategic objectives established by the compensation committee and our board of directors;• Each individual executive officer's knowledge, skills, experience, qualifications, and tenure relative to other similarly-situated executives at the companies in our compensation peer group;• The scope of each executive officer's role and responsibilities compared to other similarly-situated executives at the companies in our compensation peer group;• The prior performance of each individual executive officer, based on a subjective assessment of their contributions to our overall performance, ability to lead their business unit or function, and work as part of a team, all of which reflect our core values; | <ul style="list-style-type: none">• The potential of each individual executive officer to contribute to our long-term financial, operational, and strategic objectives;• Our chief executive officer's compensation relative to that of our executive officers, and compensation parity among our executive officers;• Our financial performance relative to our compensation peers;• The compensation practices of our compensation peer group and the positioning of each executive officer's compensation in a ranking of peer company compensation levels based on an analysis of competitive market data; and• The recommendations of our chief executive officer with respect to the compensation of other executive officers. |
|--|--|

These factors provide the framework for compensation decision-making for each executive officer. No single factor is determinative in setting compensation levels, nor is the impact of any individual factor on the determination of pay levels quantifiable.

We do not weight these factors in any predetermined manner, nor do we apply any formulas in developing our compensation recommendations. The members of the compensation committee consider all of this information in light of their individual experience, knowledge of management, knowledge of the competitive market, knowledge of each executive officer, and business judgment in making their recommendations.

In addition, the compensation committee considered feedback from our stockholders and the result of our first Say on Pay vote. Our fiscal 2020 Say on Pay vote reflected 98.7% support from our stockholders, based on the percentage of shares voted. The compensation committee believes this indicates that our stockholders support the philosophy, strategy, objectives, and administration of our executive compensation programs.

We also consider the potential risks in our business when designing and administering our executive compensation program, and we believe our balanced approach to performance measurement and pay delivery serves to avoid misaligned incentives for individuals to undertake excessive or inappropriate risk.

EXECUTIVE COMPENSATION (continued)

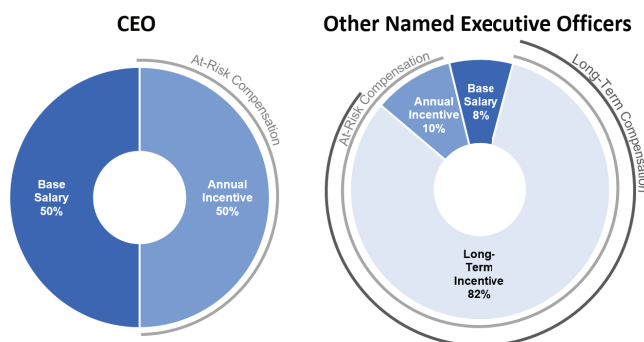
Compensation Elements

In 2020, the principal elements of our executive compensation program, and the purposes for each element, were as follows:

Element	Type of Element	Compensation Element	Objective
Base Salary	Fixed	Cash	Attract and retain highly talented executives by providing fixed compensation amounts that are competitive in the market and reward performance.
Annual Cash Bonus	Variable	Cash	Motivate our executives to achieve annual business objectives set forth in our annual operating plan and provide financial incentives when we meet or exceed these annual objectives.
Long-Term Equity Incentive Compensation	Variable	Equity	Align the interests of our executives and our stockholders by motivating them to create sustainable long-term stockholder value.

Mix of Pay

Our primary focus in compensating our executive officers is on the longer-term and performance-based elements of target total direct compensation. Under our executive compensation program, approximately 90% of target total direct compensation to our named executive officers (excluding our CEO) was variable in the form of annual cash bonus and long-term equity incentive compensation. Our CEO's mix of pay is weighted equally between base salary and annual bonus. Mr. Houston does not receive annual equity awards due to his significant holdings as a co-founder. Mr. Houston received a co-founder award in December 2017 prior to our IPO. Details of Mr. Houston's co-founder award are further described in "Co-Founder Grants" below.



Base Salary

We use base salary to provide each executive officer with a specified level of cash compensation during the year with the expectation that they will perform their responsibilities to the best of their ability and in our best interests.

Generally, we establish the initial base salaries of our executive officers through arm's-length negotiation at the time we hire the individual executive officer, taking into account their position, qualifications, experience, prior salary level, and the base salaries of our other executive officers. Thereafter, the compensation committee reviews the base salaries of our executive officers each year as part of its annual compensation review, with input from our chief executive officer (except with respect to his own base salary) and makes adjustments as it determines to be reasonable and necessary to reflect the scope of an executive officer's performance, individual contributions and responsibilities, position in the case of a promotion, and market conditions.

In March 2020, the compensation committee reviewed the base salaries of our executive officers, including our named executive officers (other than Mr. Regan), taking into consideration a competitive market analysis and the recommendations of our chief executive officer, as well as the other factors described in "Compensation-Setting Process—Compensation Setting," above. Following this review, the compensation committee approved a reduction in Mr. Houston's base salary, which Mr. Houston requested, to \$550,000, effective April 1, 2020.

EXECUTIVE COMPENSATION (continued)

The base salaries of our named executive officers for 2020 were:

Named Executive Officer	Base Salary as of End of 2019 (\$)	Base Salary as of End of 2020 (\$)	Percentage (Decrease) / Increase
Andrew W. Houston	700,000	550,000	(21%)
Timothy Regan	330,000	450,000	36%
Timothy Young	500,000	600,000	20%
Bart E. Volkmer	475,000	475,000	0%
Ajay V. Vashee ⁽¹⁾	550,000	—	N/A
Olivia Nottebohm ⁽²⁾	500,000	500,000	0%

(1) Mr. Vashee resigned from the company in October 2020.

(2) Ms. Nottebohm joined the company in February 2020 and resigned from the company in February 2021.

In connection with the company's standard annual review of employee compensation, Mr. Regan's salary was increased to \$375,000, effective February 1, 2020. In connection with Mr. Regan's promotion to CFO, the compensation committee approved an increase to his salary to \$450,000, effective September 15, 2020, in order to reflect his increased responsibilities and align Mr. Regan with similarly-situated executives.

In connection with Mr. Young's promotion to President, the compensation committee approved an increase to his salary to \$600,000, effective November 2, 2020, in order to reflect his increased responsibilities and align Mr. Young with similarly-situated executives.

The base salaries paid to our named executive officers during 2020 are set forth in the "Summary Compensation Table for Fiscal Year 2020" below.

Annual Cash Bonuses

In March 2020, the compensation committee, with input from management, adopted our 2020 annual cash bonus plan (the "2020 Cash Bonus Plan"), which was designed to provide financial incentives for us to meet or exceed the pre-established target levels for revenue and operating margin established under our 2020 annual operating plan. The 2020 Cash Bonus Plan funded based on our actual achievement against the pre-established target levels for the corporate performance measure.

Target Annual Cash Bonus Opportunities

Under the 2020 Cash Bonus Plan, cash bonus payments were based upon an eligible percentage of each participant's base salary. In March 2020, the compensation committee reviewed and approved the target annual cash bonus opportunities of our executive officers, taking into consideration the recommendations of our chief executive officer (except with respect to his own target annual cash bonus opportunity) as well as the other factors described in "Compensation-Setting Process— Compensation Setting" above.

The target annual cash bonus opportunity for Ms. Nottebohm was established through arm's-length negotiation at the time of hire, taking into account her position, qualifications, experience, the amount of her prior target annual cash bonus opportunities, and the target annual cash bonus opportunities of our other executive officers. Her 2020 bonus opportunity was pro-rated to reflect her employment with us for less than the entire year.

EXECUTIVE COMPENSATION (continued)

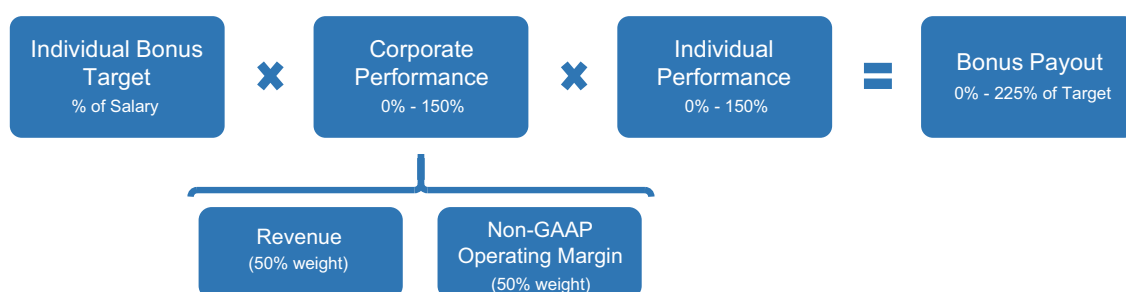
The 2020 target annual cash bonus opportunities for our named executive officers were:

Named Executive Officer	Target Annual Cash Bonus Opportunity (as a Percentage of Base Salary)	2020 Target Annual Cash Bonus Opportunity (\$)
Andrew W. Houston	100%	587,295
Timothy Regan	65%	216,557
Timothy Young	100%	516,393
Bart E. Volkmer	65%	308,750
Ajay V. Vashee	65%	357,500
Olivia Nottebohm ⁽¹⁾	100%	450,819

(1) Ms. Nottebohm joined the company in February 2020 and her bonus opportunity was pro-rated to her start date.

Mr. Regan's target bonus was increased from 50% to 65% in connection with his promotion to CFO. The increase was effective September 15, 2020, and his target annual cash bonus opportunity was pro-rated such that it would be based on 65% of his base salary for the portion of the 2020 fiscal year he spent as CFO and 50% of his base salary for the portion of the 2020 fiscal year he spent in his prior role.

Potential annual cash bonus payments for our executive officers under the 2020 Cash Bonus Plan ranged from zero to 225% of their target annual cash bonus opportunity.



Corporate Performance Measure

The compensation committee approved annual revenue and non-GAAP operating margin, each weighted equally, as components of the corporate performance measure under the 2020 Cash Bonus Plan because we believe incorporating both annual revenue and non-GAAP operating margin aligns with our emphasis on driving profitable growth. For purposes of the 2020 Cash Bonus Plan, "annual revenue" was calculated by excluding the impact of foreign exchange from our annual revenue reflected in our audited financial statements for the 2020 fiscal year and "non-GAAP operating margin" was calculated to exclude the impact of stock-based compensation expense, acquisition-related and other expenses, intangibles amortization, and impairment charges related to real estate assets. The total bonus funding percentage for the corporate performance measure is equal to 50% of the sum of the bonus funding percentages for the annual revenue and non-GAAP operating margin components.

In March 2020, the compensation committee set the target performance levels under the 2020 Cash Bonus Plan at (i) \$1,911 million for annual revenue and (ii) 17.8% for non-GAAP operating margin. In addition, the compensation committee approved the performance matrix for funding the 2020 Cash Bonus Plan (as described below), with a 10% reduction to actual payouts to our named executive officers if the company's stock-based compensation expense exceeded \$281 million for the 2020 fiscal year.

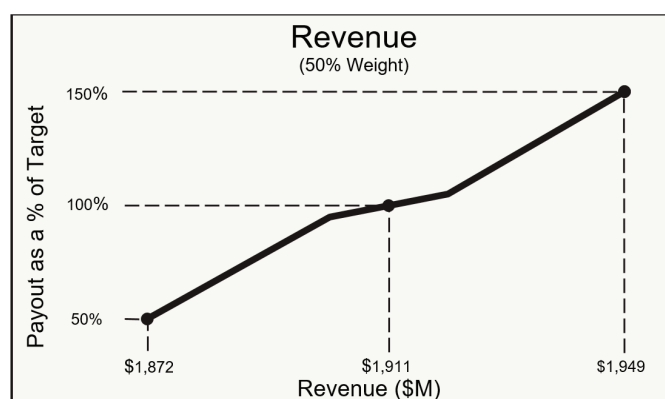
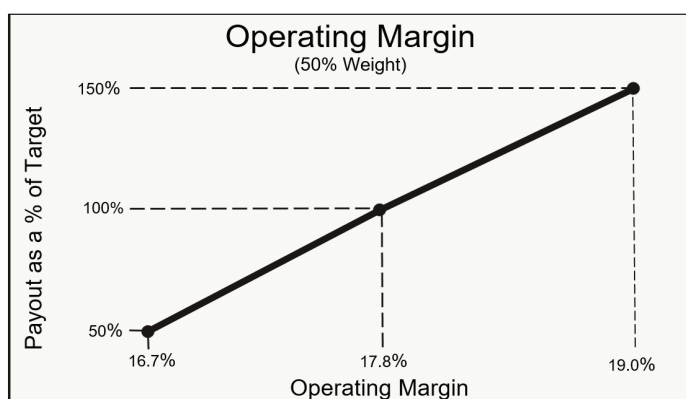
With respect to the annual revenue component, the bonus funding was 0% if we did not achieve annual revenue at the threshold revenue performance level, which is 98% of the target performance level. At the threshold revenue performance level, the annual revenue bonus funding percentage was 50%. For annual revenue above the threshold performance level and below 99.5% the target performance level, the annual revenue bonus funding percentage increased linearly up to an annual revenue bonus funding

EXECUTIVE COMPENSATION (continued)

percentage of 95%. For revenue performance $\pm 0.5\%$ of the target revenue number, the annual revenue bonus funding percentage increased linearly from 95% to 105%. For revenue performance from 100.5% of the target revenue performance level to 102% of the target revenue performance level, the annual revenue bonus funding percentage increased linearly up to 150%. The maximum annual revenue bonus funding percentage is 150%.

With respect to the non-GAAP operating margin component, the bonus funding was 0% if we did not achieve non-GAAP operating margin at the threshold performance level of 16.7%. At the threshold non-GAAP operating margin performance level, the non-GAAP operating margin bonus funding percentage was 50%. For non-GAAP operating margin above the threshold performance level, the non-GAAP operating margin bonus funding percentage increased linearly up to the maximum non-GAAP operating margin bonus funding percentage of 150%.

	Weight	Threshold 50% Payout	Target 100% Payout	Maximum 150% Payout
Revenue (\$M)	50%	\$1,872	\$1,911	\$1,949
Non-GAAP Operating Margin	50%	16.7%	17.8%	19.0%



Individual Performance Factor

In determining the amount of annual cash bonus payments under the 2020 Cash Bonus Plan, the compensation committee considered an evaluation of each executive officer's individual performance for the year. Generally, this evaluation involved, in the case of our chief executive officer, an evaluation of his performance by the compensation committee and, in the case of our other executive officers, an evaluation by our chief executive officer. These evaluations were based on a review of the various individual performance goals established for our executive officers as part of our annual performance evaluation process. For our executive officers other than our chief executive officer, these goals were established, after consultation with each executive officer. These performance goals were not intended to be formulaic, but rather to serve as the framework upon which our chief executive officer could evaluate the executive officer's overall performance. Such performance goals were established with reference to each individual executive officer's position or function within the company and included operational metrics that could reflect corporate or departmental goals or could include specific operational goals with respect to their area of responsibility.

2020 Annual Cash Bonus Decisions

In March 2021, the compensation committee, based on its evaluation, as well as the recommendation of our chief executive officer, determined the size of the bonus pool based on our performance during 2020 and determined the cash bonus payments for our executive officers, including our named executive officers, pursuant to the 2020 Cash Bonus Plan. The compensation committee reviewed our actual annual revenue performance for 2020 and determined that we had achieved annual revenue of \$1,915 million, which was approximately 100% of our annual revenue target for the year. In addition, the compensation committee determined that we had achieved non-GAAP operating margin of 21.4% compared to our target of 17.8% for the year. Management subsequently reviewed our actual annual revenue and non-GAAP operating margin performance and determined that a portion of our results were driven by cost savings related to the COVID-19 pandemic such as reduced office costs and reduced travel expenses. As a result,

EXECUTIVE COMPENSATION (continued)

management recommended that the compensation committee exercise its discretion to cap the bonus funding percentage for the corporate performance measure at 115% of target to account for the cost savings driven by the COVID-19 pandemic. The compensation committee approved management's proposal, resulting in a bonus funding percentage of 115% with respect to the corporate performance measure.

Our chief executive officer evaluated the achievement of each executive officer against his or her individual performance objectives and formulated a recommendation for each such executive officer's annual cash bonus payment for consideration by the compensation committee. These recommendations were based on our chief executive officer's subjective assessment of each individual's contributions against the personal performance objectives during the year. In the case of our chief executive officer, the compensation committee evaluated our financial and operational performance for 2020 and formulated a recommended annual cash bonus payment for him.

Based on these evaluations, the compensation committee approved the annual cash bonus payments for our named executive officers for 2020 in the table below. Since stock-based compensation expense did not exceed \$281 million for the 2020 fiscal year, there was no reduction to the annual cash bonus payments.

Named Executive Officer	Target Annual Cash Bonus Payment (\$)	Annual Cash Bonus Payment (\$)	Percentage of Target Annual Cash Bonus Actually Paid
Andrew W. Houston	587,295	675,389	115%
Timothy Regan	216,577	373,595	172%
Timothy Young	516,393	890,778	173%
Bart E. Volkmer	308,750	408,322	132%
Ajay V. Vashee ⁽¹⁾	357,500	—	0%
Olivia Nottebohm ⁽²⁾	450,819	—	0%

(1) Mr. Vashee resigned from the company in October 2020 and therefore was ineligible to receive his 2020 annual cash bonus.

(2) Ms. Nottebohm resigned from the company in February 2021 and therefore was ineligible to receive her 2020 annual cash bonus.

The annual cash bonus payments made to our named executive officers for 2020 are set forth in the "Summary Compensation Table for Fiscal Year 2020" below.

Long-Term Equity Incentive Compensation

We view long-term equity incentive compensation in the form of equity awards as a critical element of our executive compensation program. The realized value of these equity awards bears a direct relationship to our stock price, and, therefore, these awards are an incentive for our executive officers, including our named executive officers, to create value for our stockholders. Equity awards also help us retain qualified executive officers in a competitive market.

The amount and forms of the equity awards granted to our executive officers, including our named executive officers, are determined after considering the factors described in "Compensation-Setting Process" above. The size of the equity awards is also intended to be competitive and result in target total direct compensation opportunities that we believe are reasonable and appropriate taking into consideration the factors described in the preceding sentence.

In January 2020, the compensation committee approved a new hire equity grant in the form of restricted stock awards, or RSAs, to Ms. Nottebohm, effective March 1, 2020. In March 2020, the compensation committee approved equity grants in the form of RSAs to Messrs. Volkmer and Vashee, each of which were effective April 1, 2020, and Mr. Regan was granted an equity award in the form of RSUs, effective April 1, 2020. In September 2020, the compensation committee approved an equity grant of RSAs, effective October 1, 2020, to Mr. Regan in connection with his promotion to CFO. In November 2020, the compensation committee approved an equity grant of RSAs, effective December 1, 2020, to Mr. Young in connection with his promotion to President. RSAs have certain stockholder rights, such as the right to vote the shares immediately upon grant and prior to their vesting.

Differentiation was made among our executive officers based on the compensation committee's review of the competitive market data for their respective positions, internal equity, past performance, and expected future contributions. Mr. Houston does not receive equity-based compensation in light of his significant ownership position in the company.

EXECUTIVE COMPENSATION (continued)

The equity awards granted to our named executive officers in 2020 were as follows:

Named Executive Officer	RSUs or RSAs	Aggregate Grant Date Fair Value (\$)
Andrew W. Houston	—	—
Timothy Regan	55,770 ⁽¹⁾	1,009,437
Timothy Young ⁽³⁾	201,772 ⁽²⁾	3,886,129
Bart E. Volkmer	529,568 ⁽²⁾	19,143,883
Ajay V. Vashee	133,848 ⁽²⁾	2,422,649
Olivia Nottebohm	228,658 ⁽²⁾	4,138,710
	844,759 ⁽²⁾	16,523,486

(1) RSUs

(2) RSAs

(3) The number of shares listed reflect achievement at the target level of performance. The maximum number of shares is 300% of such value.

The time-based RSA award granted to Ms. Nottebohm vests over a four-year period, with one quarter of the shares vesting on February 15, 2021 and the remaining shares vesting in equal quarterly installments over the next three years, contingent upon the named executive officer remaining continuously employed in service with us through each applicable vesting date. The time-based RSA and RSU awards granted to Messrs. Volkmer, Regan, and Vashee vest over a four-year period in equal quarterly installments.

The performance-based RSA granted to Mr. Young is subject to service-based and market-based vesting conditions and may become eligible to vest over an approximately three-year performance period beginning January 1, 2021. The target number of shares subject to the performance-based RSA are divided into three equal tranches, and the shares subject to a tranche may become eligible to vest based on the achievement of stock price goals measured over a consecutive thirty-day trading period during a twelve-month measurement period that begins one month following the one-year anniversary of the grant date of the performance-based RSA (or in the case of the first measurement period, one month following the grant date) and ends one month following the next anniversary of the grant date, as follows:

First Grant Tranche Measurement Period: 1/1/2021 – 12/31/2021		Second Grant Tranche Measurement Period: 1/1/2022 – 12/31/2022		Third Grant Tranche Measurement Period: 1/1/2023 – 12/31/2023	
Price Target	Multiplier	Price Target	Multiplier	Price Target	Multiplier
Less than \$10.00	0%	Less than \$10.00	0%	Less than \$10.00	0%
\$10.00	25%	\$10.00	25%	\$10.00	25%
\$15.00	50%	\$15.00	50%	\$15.00	50%
\$20.00	100%	\$21.50	100%	\$23.50	100%
\$25.00	150%	\$25.00	150%	\$25.00	150%
\$30.00	200%	\$30.00	200%	\$30.00	200%
\$35.00	250%	\$35.00	250%	\$35.00	250%
\$40.00	300%	\$40.00	300%	\$40.00	300%

No more than 300% of the target number of shares subject to a tranche may become eligible to vest in any measurement period. Mr. Young will generally forfeit any shares subject to a tranche that do not become eligible to vest as of immediately following the end of the measurement period for that tranche.

Any shares subject to the performance-based RSA that become eligible to vest will vest on February 15 following the end of the applicable measurement period, subject to Mr. Young's continued service with us through that date.

In addition, the shares subject to the performance-based RSA may vest in connection with certain terminations of Mr. Young's employment and/or a "change in control" (as defined in our 2018 Equity Incentive Plan), as described further below in the section titled "Potential Payments on Termination or Change in Control."

EXECUTIVE COMPENSATION (continued)

The equity awards granted to our named executive officers during 2020 are set forth in the “*Summary Compensation Table for Fiscal Year 2020*” and under “*Grants of Plan-Based Awards in 2020*” below.

Welfare and Health Benefits

We have established a tax-qualified Section 401(k) retirement savings plan for our executive officers, including our named executive officers, and other employees who satisfy certain eligibility requirements. Currently, we match contributions made by participants in the plan as follows: dollar for dollar up to \$1,500 each quarter up to a maximum of \$6,000. We intend for the plan to qualify under Section 401(a) of the Internal Revenue Code (the “Code”), so that contributions by participants to the plan, and income earned on plan contributions, are not taxable to participants until withdrawn from the plan.

Additional benefits received by our executive officers, including our named executive officers, include medical, dental, and vision insurance, fertility benefits, an employee assistance program, commuter and wellness reimbursement programs, health and dependent care flexible spending accounts, a commuter benefit program, health savings accounts, basic and voluntary life and accidental death and dismemberment insurance and disability insurance. Employees who earn over \$260,000 per year are provided with voluntary supplemental long-term disability insurance. All of these benefits are provided to our executive officers on the same basis as to all of our employees.

We design our employee benefits programs to be affordable and competitive in relation to the market, as well as compliant with applicable laws and practices. We adjust our employee benefits programs as needed, based upon regular monitoring of applicable laws and practices, changes to the working arrangements of our employees and the competitive market. For example, in connection with our shift to a Virtual First work model, we are replacing a number of our existing reimbursement and allowance programs with a single allowance program that gives our employees more flexibility to be reimbursed for a wide range of wellness, dependent care, productivity and learning and development expenses.

Perquisites and Other Personal Benefits

Currently, we do not view perquisites or other personal benefits as a significant component of our executive compensation program. Accordingly, we do not provide significant perquisites or other personal benefits to our executive officers, including our named executive officers, except as generally made available to our employees, or in situations where we believe it is appropriate to assist an individual in the performance of their duties, to make him or her more efficient and effective, and for recruitment and retention purposes. During 2020, none of our named executive officers received perquisites or other personal benefits that were, in the aggregate, \$10,000 or more for each individual.

In the future, we may provide perquisites or other personal benefits in limited circumstances, such as those described in the preceding paragraph. All future practices with respect to perquisites or other personal benefits will be approved and subject to periodic review by the compensation committee.

Employment Arrangements

We have entered into written employment letters with our chief executive officer and each of our other executive officers, including our other named executive officers. Each of these arrangements was approved on our behalf by the compensation committee or our board of directors.

In filling each of our executive positions, our board of directors or the compensation committee, as applicable, recognized that we would need to develop competitive compensation packages to attract qualified candidates in a dynamic labor market. At the same time, our board of directors and the compensation committee were sensitive to the need to integrate new executive officers into the executive compensation structure, balancing both competitive and internal equity considerations.

Each of our employment arrangements provides for “at will” employment (meaning that either we or the executive officer may terminate the employment relationship at any time with or without cause) and sets forth the initial compensation arrangements for the executive officer, including an initial base salary, participation in our employee benefit programs, an equity award recommendation, and, in some cases, sign-on bonuses and reimbursement or payment of relocation expenses. These employment arrangements also prohibit the executive officer from engaging directly or indirectly in competition with us during their employment, diverting our customers to a competitor, or disclosing our confidential information or business practices, and recruiting or soliciting any of our employees for a period after their employment.

EXECUTIVE COMPENSATION (continued)

Our named executive officers are also eligible to enter into change in control and severance agreements with the company. These post-employment compensation terms are discussed in “*Post-Employment Compensation*” below.

Post-Employment Compensation

We have entered into change in control and severance agreements with each of our executive officers, including each of our named executive officers. These agreements provide these individuals with certain protection in the event of their termination of employment under specified circumstances, including following a change in control of the company.

We believe that these protections were necessary to induce these individuals to accept a demanding position with the company and help retain them. These arrangements provide reasonable compensation to an executive officer if they leave our employ under certain circumstances to facilitate transition to new employment. Further, in some instances, we seek to mitigate any potential employer liability and avoid future disputes or litigation by requiring a departing executive officer to sign a separation and release agreement as a condition to receiving post-employment compensation payments or benefits. We also believe that these arrangements help maintain our executive officers’ continued focus and dedication to their assigned duties to maximize stockholder value if there is a potential transaction that could involve a change in control of the company. The terms and conditions were approved by our board of directors after an analysis of competitive market data.

All payments and benefits in the event of a change in control of the company are payable only if there is a subsequent loss of employment by an executive officer (a so-called “double-trigger” arrangement). In the case of the acceleration of vesting of outstanding equity awards, we use this double-trigger arrangement to protect against the loss of retention value following a change in control of the company, and to avoid windfalls, both of which could occur if vesting of either equity or cash-based awards accelerated automatically as a result of the transaction.

Mr. Houston’s “Co-Founder Grant,” as described below, vests in connection with our acquisition, and as noted above, the performance-based RSA granted to Mr. Young in November 2020 may vest in connection with certain terminations of Mr. Young’s employment and/or a “change in control” (as defined in our 2018 Equity Incentive Plan), each as described further below in the section titled “*Potential Payments on Termination or Change in Control*.”

Hedging and Pledging Prohibitions

As part of our Insider Trading Policy, our employees (including our executive officers and the non-employee members of our board of directors) are prohibited from trading in publicly-traded options, such as puts and calls, and other derivative securities with respect to our securities. This includes any hedging or similar transaction designed to decrease the risks associated with holding shares of our common stock. In addition, our employees (including our executive officers and the non-employee members of our board of directors) are prohibited from holding our common stock in a margin account or pledging our securities as collateral for a loan.

Tax and Accounting Considerations

We take the applicable tax and accounting requirements into consideration in designing and operating our executive compensation program.

Deductibility of Executive Compensation

Generally, Section 162(m) of the Code disallows public companies a tax deduction for federal income tax purposes of remuneration in excess of \$1 million paid to their chief executive officer and certain other current and former executive officers that are “covered employees” within the meaning of Section 162(m) of the Code, subject to certain exceptions. The regulations promulgated under Section 162(m) of the Code currently contain a transition rule that applies to companies, such as ours, that become subject to Section 162(m) of the Code by reason of becoming publicly held. Under this rule, certain compensation granted during a transition period (and, with respect to RSU awards, that is paid out before the end of the transition period) currently is not counted toward the deduction limitations of Section 162(m) of the Code if the compensation is paid under a compensation arrangement that was in existence before the effective date of the initial public offering, and certain other requirements are met. While certain of our equity awards may be eligible to be excluded from our deductibility limitation of Section 162(m) of the Code pursuant to this transition rule, the compensation committee has not adopted a policy that all equity or other compensation must be deductible.

In approving the amount and form of compensation for our executive officers, the compensation committee considers all elements of our cost of providing such compensation, including the potential impact of Section 162(m) of the Code. The compensation committee

EXECUTIVE COMPENSATION (continued)

may, in its judgment, approve compensation that may not be deductible for federal income tax purposes when it believes that such compensation is in our best interests or the best interests of our stockholders.

While the transition rule for newly-public companies may help minimize the effect of the Section 162(m) deduction limit in the short-term, it is possible, going forward, that some portion of our executive officer compensation might not be fully deductible by us for federal income tax purposes.

Taxation of Parachute Payments and Deferred Compensation

We do not provide, and have no obligation to provide, any of our named executive officers with a “gross-up” payment for any tax liability he or she might owe because of the application of Sections 280G, 4999 or 409A of the Code. If any of the payments or benefits provided for under the change in control and severance agreements or otherwise payable to a named executive officer would constitute “parachute payments” within the meaning of Section 280G of the Code and could be subject to the related excise tax, he or she would receive either full payment of such payments and benefits or such lesser amount that would cause no portion of the payments and benefits being subject to the excise tax, whichever results in the greater after-tax benefits to our named executive officer.

Accounting for Stock-Based Compensation

Our compensation committee considers accounting effects in designing compensation plans and arrangements for our executive officers and other employees. Chief among these is ASC Topic 718, the standard which governs the accounting treatment of stock-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, restricted stock units and restricted stock awards, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may realize no value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their share-based payment awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

In December 2017, the board of directors approved a grant to our co-founders of RSAs with respect to 14.7 million shares of Class A common stock in the aggregate, or collectively, the Co-Founder Grants, of which 10.3 million RSAs were granted to Mr. Houston, our co-founder, chief executive officer, and chairman of the board of directors, and 4.4 million RSAs were granted to Mr. Ferdowsi, our co-founder and a former director and officer. These Co-Founder Grants have service-based, market-based, and performance-based vesting conditions. The Co-Founder Grants are eligible to vest based on the achievement of certain stock price goals (each, a “**Stock Price Target**”) measured over a consecutive thirty-day trading period during the period that began on January 2, 2019, and ends on the earliest to occur of (i) the date on which all shares subject to the Co-Founder Grants vest, (ii) the date the applicable co-founder ceases to satisfy the service-based vesting condition, and (iii) March 23, 2028. See “*Co-Founder Grants*” below.

We estimated the grant date fair value of the Co-Founder Grants using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the Stock Price Targets may not be satisfied. The average grant date fair value of each Co-Founder Grant was estimated to be \$10.60 per share, and we will recognize total stock-based compensation expense of \$156.2 million over the requisite service period of each tranche, which ranged from 2.9 to 6.9 years, using the accelerated attribution method. If the Stock Price Targets are met sooner than the derived service period, we will adjust our stock-based compensation to reflect the cumulative expense associated with the vested awards. We will recognize stock-based compensation expense if the requisite service period is provided, regardless of whether the market conditions are achieved. In March 2020, Mr. Ferdowsi resigned as a member of the board and as an officer of the company. As a result, he ceased to satisfy the service-based vesting condition of his Co-Founder Grant as of March 19, 2020 (the “Expiration Date”). None of the 4.4 million RSAs subject to Mr. Ferdowsi’s Co-Founder Grant had vested prior to the Expiration Date. Accordingly, all were forfeited by Mr. Ferdowsi and reacquired by the company as of that date. This forfeiture also resulted in a full reversal of the historical stock-based compensation expense related to Mr. Ferdowsi’s award that had been recognized by the company prior to the Expiration Date. Any future stock-based compensation expense that would have been taken related to Mr. Ferdowsi’s award will be cancelled. See “*Co-Founder Grants*” below.

In October 2020, the compensation committee approved an equity grant of RSAs, effective December 1, 2020, to Mr. Young in connection with his promotion to President. The performance-based RSA granted to Mr. Young is subject to service-based and market-based vesting conditions and may become eligible to vest over an approximately three-year performance period beginning January 1, 2021. The target number of shares subject to the performance-based RSA are divided into three equal tranches, and the

EXECUTIVE COMPENSATION (continued)

shares subject to a tranche may become eligible to vest based on the achievement of stock price goals measured over a consecutive thirty-day trading period during a twelve-month measurement period that begins one month following the one-year anniversary of the grant date of the performance-based RSA (or in the case of the first measurement period, one month following the grant date) and ends one month following the next anniversary of the grant date. No more than 300% of the target number of shares subject to a tranche may become eligible to vest in any measurement period. Mr. Young will generally forfeit any shares subject to a tranche that do not become eligible to vest as of immediately following the end of the measurement period for that tranche. See “*Compensation Elements—Long-Term Equity Incentive Compensation*” above for additional information regarding Mr. Young’s performance-based RSA.

We estimated the grant date fair value of Mr. Young’s performance-based RSA using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the potential stock price goals that could be achieved during each measurement period. We will recognize approximately \$19.1 million in stock-based compensation expense associated with this award using the accelerated attribution method through February 15, 2024. We will recognize stock-based compensation expense if the requisite service period is provided, regardless of whether the market conditions are achieved. If Mr. Young’s employment with us is terminated, stock-based compensation expense associated with unvested tranches will be reversed and any future stock-based compensation expense that would have been taken will be cancelled from the grant date through February 15, 2024.

EXECUTIVE COMPENSATION (continued)

Report of the Compensation Committee

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis provided above. Based on its review and discussions, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and Dropbox's Annual Report on Form 10-K for our fiscal year ended December 31, 2020.

Respectfully submitted by the members of the compensation committee of the board of directors:

Condoleezza Rice (Chair)

Robert J. Mylod, Jr.

Karen Peacock

Michael Seibel

EXECUTIVE COMPENSATION (continued)

Compensation Risk Assessment

Our management regularly assesses and discusses with the compensation committee our compensation programs, policies, and practices for our employees as they relate to our risk management. In this regard, we undertake a risk review of our employee compensation programs, policies, and practices (including our executive compensation program) each year to determine whether these programs, policies, and practices contain features that might create undue risks or encourage unnecessary and excessive risk-taking that could threaten our value. Based upon this review, we believe that any risks arising from such programs, policies, and practices are not reasonably likely to have a material adverse effect on us.

Our employees' base salaries are fixed in amount and thus we do not believe that they encourage excessive risk-taking. While performance-based cash bonuses and sales commissions focus on achievement of short-term or annual goals, which may encourage the taking of short-term risks at the expense of long-term results, we believe that our compensation policies and the risk mitigation features of our cash bonus plans help mitigate this risk and our performance-based cash bonuses and sales commissions are limited, representing a small portion of the total compensation opportunities available to most non-executive employees. We also believe that our performance-based cash bonuses and sales commissions appropriately balance risk and the desire to focus our employees on specific short-term goals important to our success, and do not encourage unnecessary or excessive risk-taking.

A significant proportion of the compensation provided to most of our employees involves long-term incentive compensation in the form of equity awards that we believe are important to help further align our employees' interests with those of our stockholders. These equity awards directly tie their expectations of compensation to their contributions to the long-term value of our company. We do not believe that these equity awards encourage unnecessary or excessive risk-taking given their multi-year vesting schedules and since their ultimate value is tied to our stock price.

EXECUTIVE COMPENSATION (continued)

Summary Compensation Table for Fiscal Year 2020

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Non-equity Incentive Plan Compensation (\$) ⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$)
Andrew W. Houston <i>Chief Executive Officer and Co-Founder</i>	2020	587,500	—	—	675,389	6,000	1,268,889
	2019	700,000	—	—	679,192	6,000	1,385,192
	2018	675,000	—	—	548,049	6,000	1,229,049
Timothy Regan <i>Chief Financial Officer</i>	2020	393,415	—	4,895,566	373,595	6,000	5,668,576
Timothy Young <i>President</i>	2020	516,667	—	19,143,883 ⁽⁴⁾	890,778	6,000	20,557,328
	2019 ⁽⁵⁾	115,705	—	20,293,391 ⁽⁶⁾	116,438	1,500	20,527,034
Bart E. Volkmer <i>Chief Legal Officer</i>	2020	475,000	—	2,422,649	408,322	4,500	3,310,471
	2019	472,917	—	2,333,167	384,213	4,500	3,194,797
	2018	445,833	58,813 ⁽⁷⁾	2,570,746	452,719	6,000	3,534,111
Ajay V. Vashee <i>Former Chief Financial Officer</i>	2020	435,417 ⁽⁸⁾	—	4,138,710 ⁽⁹⁾	— ⁽¹⁰⁾	5,188	4,579,315
	2019	545,833	—	3,985,847 ⁽¹¹⁾	443,425	6,000	4,981,105
	2018	491,667	—	5,201,503 ⁽¹²⁾	599,025	6,000	6,298,195
Olivia Nottebohm <i>Former Chief Operating Officer</i>	2020	450,961 ⁽¹³⁾	—	16,523,486 ⁽¹⁴⁾	— ⁽¹⁵⁾	5,750	16,980,197

⁽¹⁾ Unless otherwise described in the footnotes below, the amounts reported represent the aggregate grant-date fair value of RSAs or RSUs, as applicable, calculated in accordance with ASC Topic 718.

⁽²⁾ The amounts reported represent the amounts payable under our cash bonus plans for 2018, 2019, and 2020, respectively. See “*Compensation Elements—Annual Cash Bonuses*” above.

⁽³⁾ Unless otherwise noted, the amount reported reflects matching 401(k) contributions in 2018, 2019 and 2020.

⁽⁴⁾ The amount reported represents the aggregate grant-date fair value of RSAs calculated in accordance with ASC Topic 718. RSAs are eligible to vest over an approximately three-year performance period based on the achievement of certain stock price goals measured over a consecutive thirty-day trading period during twelve-month measurement periods. We calculated the grant date fair value based on multiple stock price paths developed through the use of a Monte Carlo simulation. See “*Accounting for Stock-Based Compensation*” above. If the RSAs were instead valued based on the achievement of the maximum stock price goals in each measurement period (and thus the maximum number of shares that may be issued under the performance-based RSA are issued), the aggregate market value of the RSAs on the date of grant would be \$32,044,160.

⁽⁵⁾ Mr. Young joined us in October 2019, and therefore his salary and non-equity incentive plan compensation set forth in the table above was prorated for the portion of 2019 in which he was employed with us.

⁽⁶⁾ The grant-date fair value is based on the closing price of our Class A common stock on Mr. Young’s first day of employment with us.

⁽⁷⁾ The amount reported represents payment of a retention cash bonus.

⁽⁸⁾ Mr. Vashee resigned from the company in October 2020. Amount reported represents Mr. Vashee’s salary prorated for the portion of 2020 in which he was employed with us.

⁽⁹⁾ 200,076 unvested RSAs, representing a grant date fair value of \$3,621,376, were forfeited upon Mr. Vashee’s resignation in October 2020.

⁽¹⁰⁾ Mr. Vashee resigned from the company in October 2020 and therefore was ineligible to receive his 2020 annual cash bonus.

⁽¹¹⁾ 114,273 unvested RSUs, representing a grant date fair value of \$2,491,151, were forfeited upon Mr. Vashee’s resignation in October 2020.

⁽¹²⁾ 94,611 unvested RSUs, representing a grant date fair value of \$1,625,417, were forfeited upon Mr. Vashee’s resignation in October 2020.

⁽¹³⁾ Ms. Nottebohm joined us in February 2020. Amount reported represents Ms. Nottebohm’s salary prorated for the portion of 2020 in which she was employed with us.

⁽¹⁴⁾ 633,569 unvested RSAs, representing a grant date fair value of \$12,392,610, were forfeited upon Ms. Nottebohm’s resignation in February 2021. In connection with Ms. Nottebohm’s separation agreement, the unvested RSAs that would have vested if she had remained employed through February 15, 2021 were accelerated to vest on February 5, 2021. See “*Potential Payments on Termination or Change in Control—Ms. Nottebohm’s Separation*” below.

⁽¹⁵⁾ Ms. Nottebohm resigned from the company in February 2021 and therefore was ineligible to receive her 2020 annual cash bonus.

EXECUTIVE COMPENSATION (continued)

Grants of Plan-Based Awards in 2020

The following table shows all plan-based awards granted to our named executive officers during fiscal 2020.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$) ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards (#)			All Other Stock Awards: Number of Shares (#)	Grant Date Fair Value (\$) ⁽²⁾
			Threshold	Target	Maximum	Threshold	Target	Maximum		
Andrew W. Houston	3/17/2020	3/17/2020	293,648	587,295	1,321,414	—	—	—	—	—
Timothy Regan	3/17/2020	3/17/2020	108,289	216,557	487,298	—	—	—	—	—
	4/1/2020	3/17/2020	—	—	—	—	—	—	55,770	1,009,437
	10/1/2020	8/4/2020	—	—	—	—	—	—	201,772	3,886,129
Timothy Young	3/17/2020	3/17/2020	258,197	516,393	1,161,884	—	—	—	—	—
	12/1/2020 ⁽³⁾	10/29/2020	—	—	—	132,393	529,568	1,588,704	—	19,143,883 ⁽⁴⁾
Bart E. Volkmer	3/17/2020	3/17/2020	154,375	308,750	694,688	—	—	—	—	—
	4/1/2020	3/17/2020	—	—	—	—	—	—	133,848	2,422,649
Ajay V. Vashee	3/17/2020 ⁽⁵⁾	3/17/2020	178,750	357,500	804,375	—	—	—	—	—
	4/1/2020	3/17/2020	—	—	—	—	—	—	228,658 ⁽⁶⁾	4,138,710
Olivia Nottebohm	3/1/2020	1/27/2020	225,410	450,819	1,014,343	—	—	—	844,759 ⁽⁷⁾	16,523,486
	3/17/2020 ⁽⁸⁾	3/17/2020	—	—	—	—	—	—	—	—

⁽¹⁾ Each of these grants was made pursuant to our 2020 Cash Bonus Plan, as described in greater detail under “*Compensation Elements—Annual Cash Bonuses*” above.

⁽²⁾ Amounts reported represent the aggregate grant-date fair value of RSAs or RSUs, as applicable, calculated in accordance with ASC Topic 718.

⁽³⁾ Amounts in the “Estimated Future Payouts Under Equity Incentive Plan Awards” columns relate to estimated payouts of Mr. Young’s performance-based RSA. The amount shown in the Threshold column reflect the shares that would vest if minimum stock price goals in each measurement period are met and is 25% of the amount shown under the Target column. The amount shown in the Target column reflect the shares that would vest if target stock price goals in each measurement period are met. The amount shown in the Maximum column reflect the shares that would vest if the maximum stock price goals in each measurement period are met and is 300% of the amount shown under the Target column. See “*Compensation Elements—Long-Term Equity Incentive Compensation*” above for additional information regarding Mr. Young’s performance-based RSA.

⁽⁴⁾ The amount reported represents the aggregate grant-date fair value of RSAs calculated in accordance with ASC Topic 718. RSAs are eligible to vest over an approximately three-year performance period based on the achievement of certain stock price goals measured over a consecutive thirty-day trading period during twelve-month measurement periods. We calculated the grant date fair value based on multiple stock price paths developed through the use of a Monte Carlo simulation. See “*Accounting for Stock-Based Compensation*” above.

⁽⁵⁾ Mr. Vashee resigned from the company in October 2020 and therefore was ineligible to receive his 2020 annual cash bonus.

⁽⁶⁾ 200,076 unvested RSAs, representing a grant date fair value of \$3,621,376, were forfeited upon Mr. Vashee’s resignation in October 2020.

⁽⁷⁾ 633,569 unvested RSAs, representing a grant date fair value of \$12,392,610, were forfeited upon Ms. Nottebohm’s resignation in February 2021. In connection with Ms. Nottebohm’s separation agreement, the unvested RSAs that would have vested if she had remained employed through February 15, 2021 were accelerated to vest on February 5, 2021. See “*Potential Payments on Termination or Change in Control—Ms. Nottebohm’s Separation*” below.

⁽⁸⁾ Ms. Nottebohm resigned from the company in February 2021 and therefore was ineligible to receive her 2020 annual cash bonus.

EXECUTIVE COMPENSATION (continued)

Outstanding Equity Awards at 2020 Year-End

The following table sets forth information regarding outstanding equity awards held by our named executive officers as of December 31, 2020.

Name	Grant date	Option awards		Option Exercise Price (\$)	Option Expiration Date	Stock Awards	
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable			Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested (\$) ⁽¹⁾
Andrew W. Houston	12/12/17 ⁽²⁾	—	—	—	—	10,333,333	229,296,659
Timothy Regan	2/22/2018 ⁽³⁾	—	—	—	—	15,738	349,226
	4/1/2019 ⁽³⁾	—	—	—	—	27,592	612,266
	4/1/2020 ⁽³⁾	—	—	—	—	45,313	1,005,495
	10/1/2020 ⁽³⁾	—	—	—	—	189,161	4,197,483
Timothy Young	11/1/2019 ⁽⁴⁾	—	—	—	—	789,831	17,526,350
	12/1/2020 ⁽⁵⁾	—	—	—	—	132,393 ⁽⁶⁾	2,937,801
Bart E. Volkmer	3/11/2013	90,133	—	\$4.28	3/10/2023	—	—
	2/22/2018 ⁽⁷⁾	—	—	—	—	37,408	830,084
	4/1/2019 ⁽³⁾	—	—	—	—	60,202	1,335,882
	4/1/2020 ⁽³⁾	—	—	—	—	108,751	2,413,185
Ajay V. Vashee ⁽⁸⁾	—	—	—	—	—	—	—
Olivia Nottebohm	3/1/2020 ⁽⁹⁾	—	—	—	—	844,759	18,745,202

⁽¹⁾ The closing price of our Class A common stock on December 31, 2020 was \$22.19.

⁽²⁾ This award represents RSAs granted to Mr. Houston pursuant to a stand-alone restricted stock award agreement. The shares underlying the RSAs are Class A common stock. RSAs vest over a period of up to ten years upon achievement of service-based, market-based, and liquidity event-related performance vesting conditions. See “Co-Founder Grants” below.

⁽³⁾ 1/16th of the total number of shares of our Class A common stock underlying the RSUs vests in equal quarterly installments on the Quarterly Vesting Dates, subject to continued service through each such vesting date.

⁽⁴⁾ 1/4th of the shares of our Class A common stock underlying the RSAs vests on November 15th, 2020, and an additional 1/16th of the total number of shares of our Class A common stock underlying the RSAs vests in equal quarterly installments on the Quarterly Vesting Dates, subject to continued service through each such vesting date.

⁽⁵⁾ This award represents Mr. Young's performance-based RSA. RSAs are eligible to vest over an approximately three-year performance period based on the achievement of certain stock price goals measured over a consecutive thirty-day trading period during twelve-month measurement periods. See “Compensation Elements—Long-Term Equity Incentive Compensation” above for additional information regarding Mr. Young's performance-based RSA.

⁽⁶⁾ The amount reported reflect the shares that would vest if minimum stock price goals in each measurement period are met and is 25% of the amount of shares that would vest at the target level of performance.

⁽⁷⁾ 1/8th of the total number of shares of our Class A common stock underlying the RSUs vest in equal quarterly installments on the Quarterly Vesting Dates between February 15, 2019 and February 15, 2020, and an additional 1/16th of the total number of shares of our Class A common stock underlying the RSUs vests in equal quarterly installments on the Quarterly Vesting Dates thereafter, subject to continued service through each such vesting date.

⁽⁸⁾ All unvested equity awards held by Mr. Vashee were forfeited upon his resignation from the company in October 2020.

⁽⁹⁾ 25% of the shares of our Class A common stock underlying the RSAs vest on February 15th, 2021, and an additional 1/16th of the total number of shares of our Class A common stock underlying the RSAs vest in equal quarterly installments on the Quarterly Vesting Dates, subject to continued service through each such vesting date. In connection with Ms. Nottebohm's separation agreement, the unvested RSAs that would have vested if she had remained employed through February 15, 2021 were accelerated to vest on February 5, 2021. See “Potential Payments on Termination or Change in Control—Ms. Nottebohm's Separation” below.

EXECUTIVE COMPENSATION (continued)

Co-Founder Grants

In December 2017, our board of directors approved a grant to our co-founders of RSAs with respect to 14.7 million shares of Class A common stock in the aggregate (the “**Co-Founder Grants**”) of which 10.3 million RSAs were granted to Mr. Houston, our co-founder, chief executive officer and chairman of the board of directors, and 4.4 million RSAs were granted to Mr. Ferdowsi, our co-founder and a former director and officer. These Co-Founder Grants have service-based, market-based, and performance-based vesting conditions. These Co-Founder Grants have certain stockholder rights, such as the right to vote the shares immediately upon grant and prior to their vesting. The Co-Founder Grants are eligible to vest over the ten-year period following the closing of our initial public offering. In March 2020, Mr. Ferdowsi resigned as a member of the board and as an officer of the company. As a result, he ceased to satisfy the service-based vesting condition of his Co-Founder Grant as of the Expiration Date. None of the 4.4 million RSAs subject to Mr. Ferdowsi’s Co-Founder Grant had vested prior to the Expiration Date. Accordingly, all were forfeited by Mr. Ferdowsi and reacquired by the company as of that date. Mr. Houston’s Co-Founder Grant comprises nine tranches that are eligible to vest based on the achievement of stock price goals (each, a “**Stock Price Target**”), measured over a consecutive thirty-day trading period during the Performance Period, as follows:

Company Stock Price Target	Shares Eligible to Vest for Mr. Houston
\$30.00	2,066,667
\$37.50	1,033,334
\$45.00	1,033,334
\$52.50	1,033,333
\$60.00	1,033,333
\$67.50	1,033,333
\$75.00	1,033,333
\$82.50	1,033,333
\$90.00	1,033,333

The Performance Period began on January 2, 2019, and ends on the earliest to occur of: (i) the date on which all shares subject to the Co-Founder Grants vest, (ii) the date the applicable co-founder ceases to satisfy the service-based vesting condition, and (iii) March 23, 2028.

During the first four years of the Performance Period, no more than 20% of the shares subject to each Co-Founder Grant are eligible to vest in any calendar year. After the first four years, all shares are eligible to vest based on the achievement of the Stock Price Targets.

EXECUTIVE COMPENSATION (continued)

Option Exercises and Stock Vested in 2020

The following table shows all stock awards vested, and value realized upon vesting, by our named executive officers during fiscal 2020. No named executive officer exercised stock options during fiscal 2020.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting (\$) ⁽¹⁾
Andrew W. Houston	—	—
Timothy Regan	72,923	1,443,118
Timothy Young	263,277	5,018,060
Bart E. Volkmer	105,926	2,115,388
Ajay V. Vashee	139,630	2,834,133
Olivia Nottebohm	—	—

⁽¹⁾ The value realized upon vesting of RSAs or RSUs, as applicable, is calculated by multiplying the number of shares vested by the closing price of Dropbox's Class A common stock on the vest date (or, in the event the vest date occurs on a holiday or weekend, the closing price of Dropbox's Class A common stock on the immediately preceding trading day).

Potential Payments on Termination or Change in Control

Change in Control and Severance Agreements

In order to recruit and maintain a stable and effective management team, the compensation committee believes it is appropriate and necessary to provide assurance of certain severance and change in control benefits approved by the compensation committee, in consultation with Compensia. We entered into change in control and severance agreements with each of our named executive officers that provide for the severance and change in control benefits described below.

Basic Severance

If a named executive officer's employment is terminated by us other than for "cause," death, or "disability" or they resign for "good reason" (as such terms are defined in their change in control and severance agreement), in either case, outside the Change in Control Period (as defined below), they will be eligible to receive the following payments and benefits:

- a lump-sum payment equal to 50% of annual base salary as of immediately before their termination (or, if the termination is due to a resignation for good reason based on a material reduction in base salary, then as of immediately before such reduction);
- if they elect to continue health insurance coverage for themselves and their eligible dependents under COBRA, our payment of the monthly premium for such COBRA continuation coverage for up to 6 months (or monthly taxable payments to him or her in lieu of our payment of such premiums);
- in the case of Mr. Volkmer, 25% accelerated vesting of all outstanding equity awards and, with respect to equity awards with performance-based vesting, unless otherwise specified in the award agreements governing such equity awards, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels; and
- in the case of Mr. Regan, Mr. Young and Ms. Nottebohm, 3 months' accelerated vesting of the unvested portion of outstanding time-based equity awards.

The receipt of the payments and benefits above is conditioned on the named executive officer timely signing and not revoking a release of claims, returning all documents and property belonging to us, and resigning from all officer and director positions with us.

EXECUTIVE COMPENSATION (continued)

Change in Control Severance

If, within the three-month period prior to a change in control or during the 12-month period following a change in control (such period, the “**Change in Control Period**”), a named executive officer’s employment is terminated by us other than for cause, death, or disability or they resign for “good reason” (as defined in their change in control and severance agreement), they will be entitled to the following benefits:

- a lump-sum payment equal to 100% of their annual base salary as of immediately before their termination (or if the termination is due to a resignation for good reason based on a material reduction in base salary, then as of immediately before such reduction) or, if such amount is greater, as of immediately before the change in control;
- a lump-sum payment equal to 100% of their target annual bonus (for the year of their termination);
- if they elect to continue health insurance coverage for themselves and their eligible dependents under COBRA, our payment of the monthly premium for such COBRA continuation coverage for up to 12 months (or monthly taxable payments to him or her in lieu of our payment of such premiums); and
- 100% accelerated vesting of all outstanding equity awards, and, with respect to equity awards with performance-based vesting, unless otherwise specified in the award agreements governing such equity awards, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels.

The receipt of the payments and benefits above is conditioned on the named executive officer timely signing and not revoking a release of claims, returning all documents and property belonging to us, and resigning from all officer and director positions with us.

In addition, if any of the payments or benefits provided for under a change in control and severance agreement or otherwise payable to a named executive officer would constitute “parachute payments” within the meaning of Section 280G of the Internal Revenue Code and could be subject to the related excise tax, the named executive officer would be entitled to receive either full payment of such payments and benefits or such lesser amount that would result in no portion of the payments and benefits being subject to the excise tax, whichever results in the greater amount of after-tax benefits to the named executive officer. The change in control and severance agreements do not require us to provide any tax gross-up payments to our named executive officers.

Certain Equity Awards

Andrew Houston Co-Founder Grant

In the event of an acquisition of the company before the end of the Performance Period, Mr. Houston’s Co-Founder Grant may be eligible to vest in additional tranche(s) of shares if the per share deal price in the acquisition causes a Stock Price Target that has not previously been achieved to be satisfied, in which case the tranche(s) of shares corresponding to that Stock Price Target will vest. Additionally, if the acquisition price falls between a Stock Price Target that has been achieved and one that has not, then a portion of that tranche of shares will vest based on a linear interpolation between each of these Stock Price Targets.

Timothy Young 2020 Performance-Based Restricted Stock Award

The vesting acceleration provisions under Mr. Young’s control and severance agreement described above will not apply to the performance-based RSA granted to Mr. Young in November 2020, and instead, the shares subject to the performance-based RSA may vest in connection with certain terminations of Mr. Young’s employment and/or a “change in control” (as defined in our 2018 Equity Incentive Plan), as described below.

In the event of a change in control prior to the completion of the performance period of the performance-based RSA, Mr. Young will be eligible to vest in additional shares subject to the tranche for any uncompleted measurement period(s) if the per share deal price in the change in control (which will be treated as the stock price) causes a stock price goal that has not previously been achieved to be satisfied, in which case the shares that become eligible to vest due to the achievement of that stock price goal will vest immediately prior to the change in control, subject to Mr. Young’s continued service through the date of the change in control. Additionally, if the per share deal price in the change in control is greater than the stock price goal corresponding to a 150% multiplier and falls between a stock price goal that has been achieved and one that has not, then a portion of the shares that would have vested upon achievement of the higher stock price goal for any uncompleted measurement period(s) will vest based on a linear interpolation between each of these stock price goals. In addition, if a change in control occurs after the completion of a measurement period but before the vesting date of the shares subject to the tranche for that measurement period, the shares subject to that tranche that became eligible to vest will vest immediately prior to the change in control, subject to Mr. Young’s continued service through the date of the change in control.

EXECUTIVE COMPENSATION (continued)

If Mr. Young experiences a termination of his employment with us that qualifies him to receive the severance and change in control benefits described above in “*Change in Control Severance*” and such termination occurs before the vesting date of a tranche, then the number of shares allocated to such tranche that will vest as of immediately before the change in control will be determined as described in the previous paragraph as if Mr. Young had remained employed by us through the date of the change in control, subject to Mr. Young satisfying the conditions to receive such severance and change in control benefits under his change in control and severance agreement.

If Mr. Young experiences a termination of his employment with us that qualifies him to receive the severance and change in control benefits described above in the “*Basic Severance*” described above and such termination occurs after the commencement of a measurement period but before the vesting date of the tranche relating to such measurement period, then 25% of the number of shares allocated to that tranche that became eligible to vest (or otherwise would have become eligible to vest had Mr. Young remained employed through the end of the measurement period or the date of a change in control, as applicable) based on the actual achievement of the stock price goals for such measurement period will vest on the earlier of the vesting date for the measurement period or a change in control, subject to Mr. Young satisfying the conditions to receive such severance and change in control benefits under his control and severance agreement.

Ms. Nottebohm’s Separation

In connection with Ms. Nottebohm’s resignation as our chief operating officer, we entered into a separation and release agreement (the “**Separation Agreement**”) with her in January 2021. Under the Separation Agreement, Ms. Nottebohm received:

- a lump-sum transition payment of \$500,000; and
- accelerated vesting of her outstanding and unvested equity awards as if she had remained employed through February 15, 2021.

In exchange for these payments, Ms. Nottebohm executed a general release of claims in favor of Dropbox and its affiliates and, as set forth in the Separation Agreement, confirmed her confidentiality obligations to us. The Separation Agreement also contained customary non-disparagement covenants.

The following table sets forth the payments Ms. Nottebohm was entitled to receive in connection with her Separation Agreement.

Name	Transition Payment (\$)	Value of Accelerated Equity Awards (\$) ⁽¹⁾	Total (\$)
Olivia Nottebohm	500,000	5,245,960	5,745,960

⁽¹⁾ Value based on a per share price of \$24.84, which was the closing price as reported on February 5, 2021, the date of acceleration.

Amount of Payments Upon Termination at 2020 Year-End

The following table describes the payments that would have been provided to each of our named executive officers in the event that they were involuntarily terminated by Dropbox without cause or resigned for good reason outside of a change in control context, assuming such termination occurred on December 31, 2020.

Name	Base Salary Component (\$)	Cash Bonus Component (\$)	Value of Accelerated Equity Awards (\$) ⁽¹⁾	Value of Benefits (\$)	Total (\$)
Andrew W. Houston	275,000	—	—	4,797	279,797
Timothy Regan	225,000	—	495,059	14,767	734,826
Timothy Young	300,000	—	1,460,524	8,658	1,769,182
Bart E. Volkmer	237,500	—	1,144,788	14,767	1,397,055

⁽¹⁾ Value based on a per share price of \$22.19, which was the closing price as reported on December 31, 2020.

EXECUTIVE COMPENSATION (continued)

The following table describes the payments that would have been provided for each of our named executive officers upon termination of employment in connection with a change in control of Dropbox as described above, assuming such termination had occurred on December 31, 2020.

Name ⁽¹⁾	Base Salary Component (\$)	Cash Bonus Component (\$)	Value of Accelerated Equity Awards (\$) ⁽²⁾	280G Gross-up (\$)	Value of Benefits (\$)	Total (\$)
Andrew W. Houston	550,000	587,295	0 ⁽³⁾	—	9,595	1,146,890
Timothy Regan	450,000	216,557	6,164,471	—	29,533	6,860,561
Timothy Young	600,000	516,393	27,318,941 ⁽⁴⁾	—	17,515	28,452,849
Bart E. Volkmer	475,000	308,750	4,579,151	—	29,533	5,392,434

⁽¹⁾ All of our named executive officers are subject to a better-after-tax provision whereby Dropbox would either pay such person (i) the full amount of their severance benefits or, alternatively (ii) an amount of certain severance benefits otherwise payable to them such that the severance benefits will not be subject to the tax imposed by Section 4999 of the Code, whichever produces the better after-tax result for such named executive officer.

⁽²⁾ Unless otherwise noted, the value is based on a per share price of \$22.19, which was the closing price of a share of our Class A common stock as reported on December 31, 2020.

⁽³⁾ Excludes 10,333,333 shares of Class A common stock underlying RSAs subject to Mr. Houston's Co-Founder Grant. See "Potential Payments on Termination or Change in Control—Certain Equity Awards" above for additional information regarding the terms of Mr. Houston's Co-Founder Grant in connection with a change in control.

⁽⁴⁾ The amount reported represents the value of (i) the shares of Class A common stock subject to Mr. Young's time-based RSA that are accelerated, plus (ii) the shares of Class A common stock subject to Mr. Young's performance-based RSA that would have vested if a change in control occurred on December 31, 2020 with a per share consideration of \$22.19, which was the closing price of a share of our Class A common stock as reported on December 31, 2020.

CEO Pay Ratio

In accordance with Item 402 of Regulation S-K under the Securities Act ("**Item 402**"), below is the ratio of the total compensation of the median employee of the company to the annual total compensation of the CEO (the "**Pay Ratio Disclosure**").

\$1,268,889

CEO Total Annual Compensation

\$269,214

Median Employee Total Annual Compensation

5:1

CEO Pay Ratio

In order to identify our median employee, we examined the total compensation in 2020 of all employees globally, including those employed on a full-time, part-time, seasonal or temporary basis by the company as of December 31, 2020, and then such compensation is converted into U.S. dollars. We did not annualize compensation for employees who were not employed for the entire 2020 fiscal year. We chose total compensation to use as our consistently applied compensation measure. Total compensation includes each employee's base salary, bonuses, sales commissions paid and the grant date fair market value of equity awards granted during the 12-month period from January 1, 2020 through December 31, 2020.

Our CEO had annual total compensation for 2020, calculated using the requirements of Item 402 for purposes of the Pay Ratio Disclosure, of \$1,268,889. The annual total compensation of the median employee of the company for 2020, calculated using the same requirements under Item 402 for purposes of the Pay Ratio Disclosure, which included base pay, incentive compensation, the grant date fair value of equity grants and the company's matching contribution to that employee's 401(k) plan, was \$269,214. Accordingly, the ratio of the annual total compensation of the CEO to the annual total compensation of the median employee of the company was 5 to 1.

The Pay Ratio Disclosure presented above is a reasonable estimate calculated in a manner consistent with Item 402. Because the SEC's final regulations for identifying the median employee, calculating annual total compensation and determining the pay ratio allow companies to use different methodologies, exemptions, estimates and assumptions, the company's Pay Ratio Disclosure may not be comparable to that reported by other companies.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes our equity compensation plan information as of December 31, 2020. Information is included for equity compensation plans approved by our stockholders. We do not have any equity compensation plans not approved by our stockholders. The table does not include information with respect to shares subject to outstanding awards assumed by Dropbox in connection with acquisitions of the companies that originally granted those awards. As of December 31, 2020, 497,443 shares of Class A common stock were issuable upon exercise of outstanding options assumed in connection with acquisitions. The weighted average exercise price of such outstanding options was \$6.15 per share. No additional equity awards may be granted under any assumed arrangement.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders ⁽¹⁾	33,158,402 ⁽²⁾	13.73 ⁽³⁾	44,210,707 ⁽⁴⁾

⁽¹⁾ Includes our 2008 Equity Incentive Plan (“**2008 Plan**”), 2017 Equity Incentive Plan (“**2017 Plan**”) and 2018 Equity Incentive Plan (“**2018 Plan**”). Our 2008 Plan was terminated effective March 7, 2017 and our 2017 Plan was terminated effective March 20, 2018.

⁽²⁾ Includes 33,158,402 shares subject to options and RSUs outstanding as of December 31, 2020 that were issued under the 2008 Plan, 2017 Plan, and 2018 Plan.

⁽³⁾ RSUs, which do not have an exercise price, are excluded in the calculation of weighted-average exercise price.

⁽⁴⁾ As of December 31, 2020, an aggregate of 77,369,109 shares of Class A common stock were available for issuance under our 2018 Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 15, 2021 for:

- each of our directors;
- each of our named executive officers;
- all of our current directors, named executive officers and executive officers as a group; and
- each person or group known by us to be the beneficial owner of more than 5% of our Class A or Class B common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable.

We have based our calculation of the percentage of beneficial ownership on 320,053,903 shares of our Class A common stock, 83,230,914 shares of our Class B common stock, and no shares of our Class C common stock outstanding as of March 15, 2021. We have deemed shares of our common stock subject to stock options that are currently exercisable or exercisable within 60 days of March 15, 2021 or issuable pursuant to RSUs which are subject to vesting and settlement conditions expected to occur within 60 days of March 15, 2021, to be outstanding and to be beneficially owned by the person holding the stock option or RSU for the purpose of computing the percentage ownership of that person. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Dropbox, Inc., 1800 Owens Street San Francisco, California 94158. The information provided in the table is based on our records, information filed with the SEC and information provided to us, except where otherwise noted.

Name of beneficial owner	Amount and nature of beneficial ownership				% of total voting power [#]
	Class A Common shares	%	Class B Common shares†	%	
Named executive officers and directors:					
Andrew W. Houston ⁽¹⁾	11,596,461	3.6%	81,307,337	97.7%	71.6%
Timothy Regan	228,261	*	—	—	*
Timothy Young	1,432,428	*	—	—	*
Bart E. Volkmer	107,446	*	312,847	*	*
Ajay V. Vashee	—	—	—	—	—
Olivia Nottebohm	112,565	*	—	—	*
Donald W. Blair	56,631	*	—	—	*
Lisa Campbell	6,369	*	—	—	*
Paul E. Jacobs ⁽²⁾	258,975	*	—	—	*
Robert J. Mylod, Jr. ⁽³⁾	290,309	*	—	—	*
Karen Peacock	3,169	*	—	—	*
Condoleezza Rice	56,407	*	—	—	*
Michael Seibel	—	—	—	—	—
All current directors, named executive officers and executive officers as a group (13 persons)	14,149,021 ⁽⁴⁾	4.4%	81,620,184 ⁽⁵⁾	98.1%	72.1%

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (continued)

Name of beneficial owner	Amount and nature of beneficial ownership				% of total voting power [#]
	Class A Common shares	%	Class B Common shares†	%	
Greater than 5% stockholders					
Entities affiliated with The Vanguard Group ⁽⁶⁾	30,141,324	9.4%	—	—	2.6%
Entities affiliated with Renaissance Technologies LLC ⁽⁷⁾	17,061,743	5.3%	—	—	1.5%

[†] The Class B common stock is convertible at any time by the holder into shares of Class A common stock on a share-for-share basis, such that each holder of Class B common stock beneficially owns an equivalent number of Class A common stock.

[#] Percentage total voting power represents voting power with respect to all shares of our Class A common stock and Class B common stock, as a single class. Each holder of Class B common stock shall be entitled to ten votes per share of Class B common stock and each holder of Class A common stock shall be entitled to one vote per share of Class A common stock on all matters submitted to our stockholders for a vote. The Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of our stockholders, except as may otherwise be required by law.

^{*} Represents beneficial ownership of less than one percent (1%) of the outstanding shares of our common stock.

⁽¹⁾ Consists of (i) 716,728 shares of Class A common stock and 7,893,764 shares of Class B common stock held by the Houston Remainder Trust dated 12/30/2010, for which Mr. Houston serves as trustee, (ii) 500,000 shares of Class A common stock and 72,913,073 shares of Class B common stock held by the Andrew W. Houston Revocable Trust dated 9/7/2011, for which Mr. Houston serves as trustee, (iii) 500,500 shares of Class B common stock held by the Houston 2012 Irrevocable Children's Trust dated 4/12/2012, for which Mr. Houston serves as trustee, (iv) 10,333,333 shares of Class A common stock underlying RSAs subject to Mr. Houston's Co-Founder Grant, and (v) 46,400 shares of Class A common stock subject to certain proxy agreements, in which Mr. Houston has voting power over the shares.

⁽²⁾ Consists of (i) 178,058 shares of Class A common stock held by the Paul E. Jacobs Trust dated November 7, 2014, for which Mr. Jacobs serves as trustee, (ii) and 80,917 shares of Class A common stock held by Mr. Jacobs.

⁽³⁾ Consists of (i) 222,698 shares of Class A common stock held by Annox Capital, LLC, or Annox, and (ii) 67,611 shares of Class A common stock held by Mr. Mylod. Mr. Mylod, one of our directors, is the managing member of Annox and has sole voting and investment control over the shares held by Annox.

⁽⁴⁾ Consists of (i) 14,036,456 shares of Class A common stock beneficially owned by our current executive officers and directors and (ii) 112,565 shares of Class A common stock beneficially owned by Olivia Nottebohm, a named executive officer who is not a current executive officer.

⁽⁵⁾ Consists of 81,620,184 shares of Class B common stock beneficially owned by our current executive officers and directors.

⁽⁶⁾ Consists of shares of Class A common stock beneficially owned as of December 31, 2020 according to a Schedule 13G/A filed with the SEC by The Vanguard Group, Inc. ("Vanguard") on February 10, 2021. Vanguard has beneficial ownership of 30,141,324 shares of Class A common stock. The Schedule 13G/A reports that Vanguard has shared voting power with respect to 292,865 shares of Class A common stock, shared dispositive power with respect to 29,617,206 shares of Class A common stock and shared dispositive power over 524,118 shares of Class A common stock. The address for Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.

⁽⁷⁾ Consists of shares of Class A common stock beneficially owned as of December 31, 2020 according to a Schedule 13G/A filed with the SEC by Renaissance Technologies LLC ("Renaissance LLC") on February 11, 2021. Renaissance LLC, and its affiliate, Renaissance Technologies Holdings Corporation ("Renaissance Holdings"), have beneficial ownership of 17,061,743 shares of Class A common stock. The Schedule 13G/A reports that Renaissance and Renaissance Holdings have sole voting power with respect to 17,028,423 shares of Class A common stock and sole dispositive power over 17,061,743 shares of Class A common stock. The address for Renaissance is 800 Third Avenue, New York, New York 10022.

CERTAIN RELATIONSHIPS, RELATED PARTY AND OTHER TRANSACTIONS

Since the beginning of our last fiscal year we have not engaged in any transactions that would require disclosure under Item 404(a) of Regulation S-K, and are not aware of any such transactions currently proposed.

Policies and Procedures for Related Person Transactions

Our audit committee has the primary responsibility for reviewing and approving or disapproving “related party transactions,” which are transactions between us and related persons in which the aggregate amount involved exceeds or may be expected to exceed \$120,000 and in which a related person has or will have a direct or indirect material interest. Our policy regarding transactions between us and related persons provides that a related person is defined as a director, executive officer, nominee for director, or greater than 5% beneficial owner of our common stock, in each case since the beginning of the most recently completed year, and any of their immediate family members. Our audit committee charter provides that our audit committee shall review and approve or disapprove any related party transactions.

Under this policy, all related person transactions may be consummated or continued only if approved or ratified by our audit committee. In determining whether to approve or ratify any such proposal, our audit committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party and (ii) the extent of the related person's interest in the transaction. The policy grants standing pre-approval of certain transactions, including (i) executive compensation governed by our standard compensation and benefits policies, (ii) director compensation arrangements governed by our standard director compensation policies, (iii) transactions with another company at which a related person's only relationship is as an employee (other than an executive officer), director, or beneficial owner of less than 10% equity interest of that company, if the aggregate amount involved does not exceed the greater of \$200,000 or 2% of the recipient's consolidated gross revenues, (iv) charitable contributions, grants or endowments by us to a charitable organization, foundation or university where the related person's only relationship is as an employee (other than an executive officer), or director, if the aggregate amount involved does not exceed the lesser of \$1,000,000 or 2% of the charitable organization's total annual receipts, (v) any transaction available to all U.S. employees generally, and (vi) transactions where a related person's interest arises solely from the ownership of our common stock and all holders of our common stock received the same benefit on a pro rata basis.

OTHER MATTERS

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires that our executive officers and directors, and persons who own more than 10% of our common stock, file reports of ownership and changes of ownership with the SEC. Such directors, executive officers and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent fiscal year. Based solely on our review of copies of such forms that we have received, or written representations from reporting persons, we believe that during the fiscal year ended December 31, 2020, all executive officers, directors and greater than 10% stockholders complied with all applicable SEC filing requirements, with the exceptions noted below:

- Due to an administrative error, a late Form 4 report was filed for R. Bryan Schreier on May 27, 2020 to report a grant of 11,297 restricted stock units on May 21, 2020.
- Due to an administrative error, a late Form 4 report was filed for Timothy Regan on December 1, 2020 to report a sale of 1,941 shares of our Class A common stock on November 25, 2020.

Fiscal Year 2020 Annual Report and SEC Filings

Our financial statements for our fiscal year ended December 31, 2020 are included in our Annual Report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. This proxy statement and our annual report are posted on our website at investors.dropbox.com and are available from the SEC on its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Dropbox, Inc., Attention: Corporate Secretary, 1800 Owens Street, San Francisco, California 94158.

* * *

The board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote the shares of our common stock they represent in accordance with their own judgment on such matters.

It is important that your shares of our common stock be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote by telephone or by using the Internet as instructed on the enclosed proxy card or execute and return, at your earliest convenience, the enclosed proxy card in the envelope that has also been provided.

THE BOARD OF DIRECTORS

San Francisco, California
April 6, 2021

APPENDIX A

Reconciliation of GAAP financial measures to non-GAAP financial measures

This proxy statement contains information regarding two non-GAAP financial measures: non-GAAP operating margin and free cash flow, each of which are not calculated in accordance with GAAP. Non-GAAP operating margin is calculated as our non-GAAP income (loss) from operations divided by revenue. Non-GAAP income (loss) from operations differs from GAAP in that it excludes stock-based compensation expense, amortization of acquired intangible assets, other acquisition-related expenses, which include third-party diligence costs and expenses related to key employee holdback agreements, and impairment charges related to real estate assets. Free cash flow differs from GAAP net cash provided by operating activities in that it treats capital expenditures as a reduction to net cash provided by operating activities.

We believe that these non-GAAP financial measures are appropriate to enhance an overall understanding of our fiscal 2020 performance in relation to the principal elements of Dropbox's annual executive compensation program considered by the compensation committee, as described in the "Compensation Discussion and Analysis" section of this proxy statement.

The use of non-GAAP operating margin and free cash flow has certain limitations as they do not reflect all items of income, expense, and cash expenditures, as applicable, that affect Dropbox's operations. Dropbox compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages stockholders and others to review Dropbox's financial information in its entirety and not rely on a single financial measure.

Stockholders should review the reconciliation of non-GAAP operating margin and free cash flow to their most directly comparable GAAP financial measures, as provided in the following tables (in millions, except for percentages, which may not foot due to rounding):

Non-GAAP operating margin

	Twelve Months Ended December 31,	
	2020	2019
GAAP income (loss) from operations	\$ (277.0)	\$ (80.5)
GAAP operating margin	(14.5%)	(4.8%)
Less:		
Stock-based compensation	(261.5)	(261.2)
Acquisition-related and other expenses	(16.9)	(15.9)
Intangibles amortization	(9.5)	(8.4)
Impairment related to real estate assets	(398.2)	—
Non-GAAP income (loss) from operations	409.1	205.0
Non-GAAP operating margin	21.4%	12.3%

APPENDIX A (continued)

Free cash flow

	Twelve Months Ended December 31,	
	2020	2019
Net cash provided by operating activities	\$570.8	\$ 528.5
Less:		
Capital expenditures	(80.1)	(136.1)
Free cash flow	490.7	392.4

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-38434

Dropbox, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-0138832
(I.R.S. Employer
Identification Number)

Dropbox, Inc.
1800 Owens Street
San Francisco, California 94158
(Address of principal executive offices, including zip code)
(415) 857-6800
(Registrant's telephone number, including area code)

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Class A Common Stock, par value \$0.00001 per share	DBX	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant, based on the closing price of a share of the registrant's Class A common stock on June 30, 2020 as reported by the NASDAQ Global Select Market on such date was approximately \$6,023.6 million. Shares of the registrant's Class A common stock held by each executive officer, director and holder of 5% or more of the outstanding Class A common stock have been excluded as such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of February 16, 2021 there were 331,279,862 shares of the registrant's Class A common stock outstanding (which includes 10,333,333 shares of Class A common stock subject to restricted stock awards that were granted pursuant to the Co-Founder Grants, and vest upon the satisfaction of a service condition and achievement of certain stock price goals, and 2,352,246 shares of Class A common stock subject to restricted stock awards that were granted to other Dropbox executives and vest upon the satisfaction of a service condition and, as applicable, achievement of certain stock price goals), 83,437,091 shares of the registrant's Class B common stock outstanding, and no shares of the registrant's Class C common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2021 Annual Meeting of Stockholders are incorporated herein by references in Part II and Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2020.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risk and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our ability to retain and upgrade paying users;
- our ability to attract new users or convert registered users to paying users;
- our future financial performance, including trends in revenue, costs of revenue, gross profit or gross margin, operating expenses, paying users, annual recurring revenue, average revenue per year and free cash flow;
- our expectations regarding the challenges and anticipated benefits to our business from our shift to a Virtual First work model as well as the resulting impact to our financial results and business operations;
- our expectations regarding the potential ongoing impacts of the outbreak of the COVID-19 pandemic and related public health measures, as well as the potential for a more permanent global shift to remote work, on our business, the business of our customers, suppliers and partners, and the economy;
- our ability to compete successfully in competitive markets;
- the demand for our platform or for content collaboration solutions in general;
- possible harm caused by significant disruption of service or loss or unauthorized access to users’ content;
- our ability to effectively integrate our platform with others;
- our ability to respond to rapid technological changes, including our ability to take advantage of potential market opportunities arising from what we believe to be a more permanent shift towards remote work;
- our ability to achieve or maintain profitability;
- our expectations and management of future growth;
- our ability to grow due to our lack of a significant outbound sales force;
- our ability to attract large organizations as users;
- our ability to offer high-quality customer support;
- our ability to manage our international expansion;
- our ability to attract, retain, integrate, and manage key and other highly qualified personnel, including in light of our workforce reduction in January 2021 and as we transition to a Virtual First model with an increasingly distributed workforce;
- our capital allocation plans, including expected allocations of cash and timing for our share repurchases and other investments;
- our ability to protect our brand;
- our ability to prevent serious errors or defects in our platform;

- our ability to maintain, protect, and enhance our intellectual property; and
- our ability to successfully identify, acquire, and integrate companies and assets.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

SUMMARY OF RISK FACTORS

Below is a summary of the principal factors that could materially harm our business, operating results and/or financial condition, impair our future prospects and/or cause the price of our Class A common stock to decline. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading “Risk Factors” and should be carefully considered, together with other information in this Form 10-K and our other filings with the Securities and Exchange Commission (“SEC”) before making an investment decision regarding our Class A common stock.

- Our business depends on our ability to retain and upgrade paying users, and any decline in renewals or upgrades could adversely affect our future results of operations.
- Our future growth could be harmed if we fail to attract new users or convert registered users to paying users.
- Our revenue growth rate has declined in recent periods and may continue to slow in the future.
- We have a limited history of operating with a Virtual First workforce and the long-term impact on our financial results and business operations is uncertain.
- We operate in competitive markets, and we must continue to compete effectively.
- Our business could be damaged, and we could be subject to liability if there is any unauthorized access to our data or our users' content, including through privacy and data security breaches.
- Our business could be harmed by any significant disruption of service on our platform or loss of content.
- The full extent of the impacts of the COVID-19 pandemic on our business is currently unknown, but it may adversely affect our financial results as well as our business operations.
- We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform or for content collaboration solutions in general could negatively impact our business.

- Our business depends upon the interoperability of our platform across devices, operating systems, and third-party applications that we do not control.
- Failure to respond to rapid technological changes, extend our platform, or develop new features or products may harm our ability to compete effectively, which would adversely affect our business.
- We may not successfully manage our growth or plan for future growth.
- We depend on our key personnel and other highly qualified personnel, and if we fail to attract, integrate, and retain our personnel, and maintain our unique corporate culture, our business could be harmed.
- We have a history of net losses, we may increase expenses in the future, and we may not be able to achieve or to maintain profitability.
- Our lack of significant outbound sales force may limit the potential growth of our business.

PART I.

ITEM 1. BUSINESS

Overview

Dropbox, Inc. (the “Company” or “Dropbox”) is the one place to keep life organized and keep work moving.

We were founded in 2007 with a simple idea: Life would be a lot better if everyone could access their most important information anytime from any device. Over the past decade, we’ve largely accomplished that mission by building tools to help people work from anywhere—and along the way we recognized that for most of our users, sharing and collaborating on Dropbox was even more valuable than storing files.

Our market opportunity has grown as we’ve expanded from keeping files in sync to keeping teams in sync. Today, Dropbox is well-positioned to reimagine the way work gets done. We’re focusing on reducing the inordinate amount of time and energy the world spends on “work about work”—tedious tasks like searching for content, switching between applications, and managing workflows. We believe the need for our platform will continue to grow as teams become more fluid and global, and content is increasingly fragmented across incompatible tools and devices. Dropbox breaks down silos by centralizing the flow of information between the products and services our users prefer, even if they’re not our own. In a world where using technology at work can be fragmented and distracting, Dropbox makes it easy to focus on the work that matters.

The popularity of our platform drives viral growth, which has allowed us to scale rapidly and efficiently. We’ve built a thriving global business with 15.48 million paying users.

What Sets Us Apart

Since the beginning, we’ve focused on simplifying the lives of our users. In a world where business software can be frustrating to use, challenging to integrate, and expensive to sell, we take a different approach. As businesses around the world adapt to a distributed environment, Dropbox is at the forefront of developing the technology to support them. Dropbox provides tools to help distributed teams prioritize, get organized, and keep work moving securely—from anywhere.

Simple and intuitive design

While traditional tools developed in the desktop age have struggled to keep up with evolving user demands, Dropbox was designed for the cloud era. We build simple, beautiful products that bring joy to our users and make it easier for them to do their best work.

Open ecosystem

Because people use a wide variety of devices, tools and platforms, Dropbox works across the devices, operating systems, and apps users want—from Android to iOS, Windows, Mac, desktop, and mobile. We also integrate seamlessly with other products, integrating with partners including Microsoft, Zoom, Slack, BetterCloud, Atlassian, and Google.

Viral, bottom-up adoption

Every year, millions of users sign up for Dropbox at work. Bottom-up adoption within organizations has been critical to our strategy and success as users increasingly choose their own tools at work. We generate over 90% of our revenue from self-serve channels—users who purchase a subscription through our app or website.

Performance and security

Our custom-built infrastructure allows us to maintain high standards of performance, availability, and security. Dropbox is built on proprietary, block-level sync technology to achieve industry-leading performance. We designed our platform with multiple layers of redundancy to guard against data loss and deliver high availability. We also offer numerous layers of protection, from secure file data transfer and encryption to network configuration and application-level controls.

Our Solution

Dropbox allows individuals, teams, and organizations to collaborate more effectively and focus on the work that matters. Anyone can sign up for free through our website or app, and upgrade to a paid subscription plan for premium features.

Key elements of our platform

- *Unified home for content.* We provide a unified home for the world's content and the relevant context around it. To date, our users have added hundreds of billions of pieces of content to Dropbox, totaling over multiple exabytes of data. When users join Dropbox, they gain access to a digital workspace that supports the full content lifecycle—they can create and organize their content, access it from anywhere, share it with internal and external collaborators, and review feedback and history.
- *Global sharing network.* We've built one of the largest collaboration platforms in the world. We cater to the needs of dynamic, dispersed teams. The overwhelming majority of our customers use Dropbox to share and collaborate. As we continue to grow, more users benefit from frictionless sharing, and powerful network effects increase the utility and stickiness of our platform.
- *Product experiences and integrations.* The insights we glean from our community of users and our deep integrations with best-of-breed companies lead us to develop or acquire new product experiences and extend the capabilities of our platform. Products like Dropbox Passwords, Vault, Computer Backup, and HelloSign, and deep integrations with companies like Microsoft, Zoom, Atlassian, Slack, and BetterCloud help us provide our users with the functionality they need to do their best work. Machine learning further improves the user experience by enabling more intelligent search, better organization, and utility of information. This ongoing innovation broadens the value of our platform and deepens user engagement.

These elements reinforce one another to produce a powerful flywheel effect. As users create and share more content with more people, they expand our global sharing network. This network allows us to gather insights and feedback that help us create new product experiences. And with our scale, we can instantly put these innovations in the hands of millions. This, in turn, helps attract more users and content, which further propels the flywheel.

Our Capabilities

Dropbox is a single organized place where individuals and teams can create content, access it from anywhere, and share it with collaborators. The power of our platform lies in the breadth of our capabilities and the diverse ways our users make Dropbox work for them. We monetize through a range of subscription plans. Our platform capabilities are described below:

Create

Paper. With Dropbox Paper, users can co-author content, tag others, create timelines, assign tasks with due dates, embed and comment on files, tables, checklists, code snippets, and rich media—all in real-time. We designed Paper to be simple and beautiful so users can focus on the most important ideas and tasks at hand.

Doc scanner. The doc scanner in our mobile app lets users create content in Dropbox from hard copies. This includes transforming everything from printed materials to whiteboard brainstorming sessions into digital documents that users can edit and share. We apply proprietary machine learning techniques to automatically detect the document being scanned, extract it from the background, fit it to a rectangular shape, remove shadows, adjust the contrast, and save it as a PDF or image file. For Dropbox Business teams, scanned content is analyzed using Optical Character Recognition so text within these scans is searchable in Dropbox.

Access and organize

Search. Dropbox has powerful search capabilities that allow users to quickly find the files and folders they need. Our autocomplete technology surfaces and prioritizes content based on users' previous activity. For Dropbox Plus, Professional, and Business users, full text search allows users to scan the entire content of their files.

Rich previews. Rich previews allow users to easily interact with files across any device without having to open different applications. Users can comment on, annotate, review, and present files, and see who viewed and edited them. We support previews of over 300 file types, and Dropbox users currently preview files tens of millions of times every day.

Smart Sync. With Smart Sync, users can access all of their content natively on their computers without taking up storage space on their local hard drives. We intelligently sync files to a user's computer as they need them, and users can control which files or folders are always synced locally. With Smart Sync, files that are only stored in the cloud appear in the local file system and can be opened directly from Windows File Explorer or Mac Finder, instead of having to navigate to our web interface. Smart Sync is available to Dropbox Plus, Professional, and Business users.

Version history. As paying users work on files, our servers keep snapshots of all their changes. Users can see a file's complete version history so they can reference and retrieve older versions if needed. Version histories are kept between 30 to 180 days for paying users, depending on subscription plan.

Third-party ecosystem. Our open and thriving ecosystem fosters deeper relationships with our users and developers. Developers can build applications that connect to Dropbox through our DBX Developer Platform. For example, email apps can plug into Dropbox to send attachments or shared links, video-conferencing apps allow users to start meetings and share content natively from Dropbox, and eSignature apps give users the ability to manage and maintain contract workflows all from within Dropbox. As of December 31, 2020, Dropbox was receiving over 60 billion API calls per month and over 750,000 developers had registered and built applications on our platform. In addition, more than 85% of Dropbox Business teams have linked to one or more third-party applications.

Rewind. Dropbox Rewind is a tool that lets a user take a folder, or their entire account, back to a specific point in time. The tool uses version history to undo changes made to files and folders and can recover any file edits or deletions made within the last 30 to 180 days depending on the users' subscription.

Computer Backup. Computer backup automatically syncs folders on a user's computer to the cloud. When turned on, files on the user's PC or Mac are continuously backed up on the cloud. Any changes made in synced folders are automatically updated in the Dropbox account and on the hard drive. Computer backup allows users to get up-to-date versions of files stored on the user's PC or Mac from anywhere and from any device instantly. Content is secure in the cloud, no matter what happens to the user's computer.

Passwords. Dropbox Passwords allows users to sign-in to websites and apps by creating and storing unique usernames and passwords across devices. The app can autofill usernames and passwords for instant access anywhere within applications available for Windows, Mac, iOS, and Android.

Vault. Dropbox Vault helps secure and organize sensitive information in the cloud. Vault is a PIN-protected folder in Dropbox that a user can access any time and on any device. Sensitive data can be added and viewed from any device: Windows, Mac, iOS, and Android.

Share

Folders. There are three types of folders in Dropbox: private, shared, and team folders. A private folder allows an individual to sync files between devices. A shared folder allows users to quickly and easily start a project space for group collaboration. A team folder, which is only available for Dropbox Business teams, is a central, administrator-managed hub where they can store and collaborate on content.

Shared links. Users can share files and folders with anyone, including non-Dropbox users, by creating a Dropbox link. Once created, the link can be sent through email, text, Facebook, Twitter, instant message, or other channels. The recipient can view the file with a rich preview or see all the files in a shared folder. Dropbox Professional subscribers and Dropbox Business teams can set passwords and expiration dates and specify whether recipients can comment on or download the files.

Transfer. Dropbox Transfer gives users a quick and secure way to send large files or collections of files to anyone. With Transfer, users can send up to 100 GB of files in just a few clicks. Users also have the option to drag and drop files to upload from their computer, or add items stored in Dropbox. After creating a transfer, users receive a link that can be pasted anywhere and sent to anyone. Recipients receive copies of the files, so the sender's originals remain untouched.

File requests. With file requests, users can invite anyone to submit files into a specified Dropbox folder through a simple link—regardless of whether the recipient has a Dropbox account. File requests are ideal for tasks such as collecting bids from contractors or requesting submissions from coworkers and clients. All submitted files are organized into a Dropbox folder that's private to the requesting user.

Watermarking. Our Dropbox watermarking feature allows users to protect and share digital files quickly and easily. The watermark feature can be used to protect graphic designs, confidential contracts, and personal photographs. Users can create their own custom watermark and watermark any file without leaving Dropbox.

Collaborate

Comments and annotations. Dropbox comments and annotations marry content with the conversations and relevant context around it. Instead of being scattered across separate silos, such as email and chat, the editing and development of content are tied to a file. Users can give feedback on specific parts of files through a rich, innovative overlay on our web and mobile platforms.

File activity stream. An activity feed lives next to every file preview on our web interface and in the desktop app, telling users what's happening with a file. The feed shows when someone opens a file, edits a file, or shares a file.

Notifications. We use real-time notifications across all our channels—web, desktop, email, and mobile—to keep users up-to-date on what's happening with their work. Users can choose to be notified when someone opens, edits, shares, or comments on a file, or adds a file to their shared folders.

Viewer information and presence. On both file previews and Paper docs, Dropbox shows users in real-time who's viewing a doc and when a doc was last viewed by other users. On desktop, the Dropbox badge is a subtle overlay to Microsoft Word, Excel, and PowerPoint that lets users know if someone opens or edits the file they're working in. The Dropbox badge gives users real-time insight into how others are interacting with their content, bringing modern collaboration features often found only in web-based documents to desktop files.

HelloSign. HelloSign is an eSignature and document workflow platform that enables customers to easily sign, send, and receive documents through its intuitive web and mobile based interfaces. Once documents are signed, copies automatically sync to the user's Dropbox account.

Secure

Security protections. We employ strong protections for all of the data on our platform.

- *Encryption.* Dropbox file data at rest is encrypted using 256-bit Advanced Encryption Standard, or AES. To protect data in transit between Dropbox apps such as desktop, mobile, API, or web and our servers, Dropbox uses Secure Sockets Layer, or SSL, and Transport Layer Security, or TLS, for data transfer, creating a secure tunnel protected by 128-bit or higher AES encryption.
- *File recovery.* Every deletion event in Dropbox is recorded, including when groups of files are deleted. Users can easily recover files through our web interface. Dropbox Plus subscribers may recover prior versions for up to 30 days after deletion, and Dropbox Professional and Dropbox Business subscribers may recover prior versions for up to 180 days after deletion.

Administrator controls. Dropbox Business team administrators have many ways to customize security settings in both global and granular ways, including real-time detections of suspicious behavior, risky activity, and potential data leaks.

- *Sharing permissions:* Team administrators can set up and monitor how their members share team folders, and can set sharing permissions on all folders, sub-folders, and links through the sharing tab.
- *Remote device wipe:* Team administrators can delete their organization's Dropbox content from a member's linked devices, which is especially useful should someone lose a device or leave the team.
- *Audit log:* Team administrators can monitor which members are sharing files and logging into Dropbox, among other events. They can review activity logs, create full reports for specific time ranges, and pull activity reports on specific members. Advanced and Enterprise team administrators have access to audit logs with file-event tracking.
- *Device approvals:* Advanced and Enterprise team administrators can manage how members access Dropbox on their devices.
- *Tiered administrator roles:* Advanced and Enterprise teams have the ability to set multiple administrator roles, each with a different set of permissions.
- *Network control:* Enterprise team administrators can restrict personal Dropbox usage on their organization's network.

Third-party security integrations. We've partnered with industry-leading third parties to enable us to provide a wide range of IT processes and satisfy industry compliance standards, including:

- *Security information and event management:* Allows Dropbox Business administrators to oversee and manage employee activity, and access sensitive data through the administrator page.

- *Data loss prevention*: Protects sensitive data like personally identifiable information and payment card industry data stored in Dropbox Business accounts.
- *eDiscovery and legal hold*: Enables secure search and the ability to collect and preserve electronically stored information in Dropbox Business accounts.
- *Digital rights management*: Provides third-party encryption for company data stored in Dropbox Business accounts.
- *Data migration and on-premises backup*: Assists in transferring large amounts of data between locations and securing sensitive information with on-site data backup.
- *Identity management*: Allows companies to keep their Dropbox Business team authenticated with an external identity provider like Active Directory.

Our Subscription Plans

We offer subscription plans to serve the varying needs of our diverse customer base, which includes individuals, families, teams, and organizations of all sizes. Our monthly subscription pricing for Individuals and Business are as follows:

Dropbox subscription plans

Personal				Business		
Basic	Plus	Family	Professional	Standard	Advanced	Enterprise
Free	\$11.99 / month \$119.88 / year	\$19.99 / month \$203.88 / year	\$19.99 / month \$199.00 / year	\$15.00 / user / month \$150.00 / user / year 3 users minimum	\$25.00 / user / month \$240.00 / user / year 3 users minimum	Negotiated pricing
Dropbox Transfer* Dropbox Paper Computer Backup File requests 30 day version history HelloSign eSignatures	Everything in Basic Passwords Vault* Dropbox Rewind Smart Sync and Smart Sync Auto-Evict Full text search Priority email support	Everything in Plus Up to 6 users Family Room folder	Everything in Plus Auto OCR Image search Watermarking Shared link controls Branded sharing 180 day version history Premium previews Time-based comments Viewer history Traffic and insights	Everything in Basic Dropbox Rewind Smart Sync and Smart Sync Auto-Evict Auto OCR, Image and full text search Watermarking Shared link controls Branded sharing 180 day version history Team folders Admin console Granular permissions Active directory connector Enables HIPAA compliance Unlimited API access** Priority email + live chat	Everything in Standard Premium previews Time-based comments Viewer history Single sign-on integration (SSO) Audit logs Device approvals Tiered admin roles Business hours phone support	Everything in Advanced Enterprise mobility management (EMM) Network control Domain insights and account capture 24/7 phone support and advanced training
2GB of storage	2TB storage	2TB storage	3TB storage	5TB storage	As much storage as needed	As much storage as needed

*Vault is only available in Plus, Family, and Professional. *Size of Dropbox Transfer varies based on Dropbox plan: Basic (100MB), Plus, Family, & Standard (2GB), Professional, Advanced, and Enterprise (100GB). Professional, Advanced, and Enterprise plans also receive advanced Transfer functionality.

**Teams have unlimited API access to productivity and security partners but may be subject to a cap on API calls to data transport partners.

Our Customers

We've built a thriving global business with 15.48 million paying users. As of December 31, 2020, we had more than 500,000 paying Dropbox Business teams. Our customer base is highly diversified, and in 2018, 2019, and 2020, no customer accounted for more than 1% of our revenue. Our customers include individuals, families, teams, and organizations of all sizes, from freelancers and small businesses to Fortune 100 companies. They work across a wide range of industries, including professional services, technology, media, education, industrials, consumer and retail, and financial services. Within companies, our platform is used by all types of teams and functions, including sales, marketing, product, design, engineering, finance, legal, and human resources.

How we support our customers

All of our users can access support through the following resources:

- *Help center*: Provides an online repository of helpful information about our platform, responses to frequently asked questions, and best practices for use.

- *Community support*: Facilitates collaboration between users on answers, solutions, and ideas about our platform in an online community.
- *Social media support*: Provides users real-time product and service updates, and offers tips and troubleshooting information.
- *Guided troubleshooting*: Offers step-by-step instructions to resolve common questions and provides a portal to submit help requests for questions that aren't otherwise available.

We also offer additional support for our paying users as described above in Our Subscription Plans.

Our Sales and Marketing Approach

As users share content and collaborate on our platform, they introduce and invite new users, driving viral growth. We generate over 90% of our revenue from self-serve channels, which limits customer acquisition costs.

We've developed an efficient marketing function that's focused on building brand awareness and reinforcing our self-serve model.

Our goal is to rapidly demonstrate the value of our platform to our users in order to convert them to paying users and upgrade them to our premium offerings. We reach them through in-product prompts and notifications, time-limited trials of paid subscription plans, email, and lifecycle marketing. In 2020, hundreds of millions of devices—including computers, phones, and tablets—were actively connected to the Dropbox platform, representing a large number of touchpoints to communicate with our users. We complement our self-serve strategy with a focused outbound sales effort targeted at organizations with existing organic adoption of Dropbox.

Once prospects are identified, our sales team works to broaden adoption of our platform into wider-scale deployments. We also acquire some users through paid marketing and distribution partnerships in which hardware manufacturers pre-install our software on their devices.

Our Technology Infrastructure and Operations

Our users trust us with their most important content, and we focus on providing them with a secure and easy-to-use platform. More than 90% of our users' data is stored on our own custom-built infrastructure, which has been designed from the ground up to be reliable and secure, and to provide annual data durability of at least 99.999999999%. We have datacenter co-location facilities in California, Oregon, Texas, and Virginia.

We also utilize Amazon Web Services, or AWS, for the remainder of our users' storage needs and to help deliver our services. These AWS datacenters are located in the United States, Australia, Europe, and Japan, which allows us to localize where content is stored. Our technology infrastructure, combined with select use of AWS resources, provides us with a distributed and scalable architecture on a global scale.

We designed our platform with multiple layers of redundancy to guard against data loss and deliver high availability. Incremental backups are performed hourly and full backups are performed daily. In addition, as a default, redundant copies of content are stored independently in at least two separate geographic regions and replicated reliably within each region.

Our Commitment to Security and Privacy

Trust is the foundation of our relationship with our users, and we take significant measures every day to protect their privacy and security.

Security

Our sophisticated infrastructure is designed to protect our users' content while it is transferred, stored, and processed. We offer multiple layers of protection, including secure file data transfer, encryption, network configuration, and application-level controls. For Dropbox Business teams, our tools also empower administrators with control and visibility features that allow them to customize our platform to their organizations' needs. Our information security policies and management framework are designed to build a culture of security, and we continually assess risks and improve the security, confidentiality, integrity, and availability of our systems. We voluntarily engage third-party security auditors to test our systems and controls at least annually against the most widely recognized security standards and regulations. We also encourage and support independent research

through our bug bounty program, where we work with leading security researchers from around the world to maintain the high standards of security our users have come to expect.

Dropbox supports HIPAA and HITECH compliance. We sign business associate agreements with our customers who require them in order to comply with the Health Insurance Portability and Accountability Act, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH. We also offer a HIPAA assessment report performed by an independent third party.

Privacy

We are committed to keeping user data private, and are subject to a number of privacy laws and regulations such as the European Union's General Data Protection Regulation ("GDPR") and the California Consumer Privacy Act ("CCPA") in the U.S. These laws and regulations impose increasingly numerous, complex obligations on us. To comply with and manage our obligations under such privacy laws and regulations, we operate a robust privacy program and have appointed a Data Protection Officer. Our privacy policy details how we process our users' personal data as well as the steps we take to protect it. For third-party developers that create applications that connect to Dropbox, we also set forth terms and guidelines that explain their obligation to protect the privacy of Dropbox users' personal data.

Our Competition

The market for content collaboration platforms is competitive and rapidly changing. Certain features of our platform compete in the cloud storage market with products offered by Microsoft, Amazon, Apple, Slack, and Google and in the content collaboration market with products offered by Microsoft, Atlassian, and Google. We compete with Box on a more limited basis in the cloud storage market for deployments by large enterprises. We also compete with smaller private companies that offer point solutions in the cloud storage market or the content collaboration market.

We believe that the principal competitive factors in our markets include the following:

- user-centric design;
- ease of adoption and use;
- scale of user network;
- features and platform experience;
- performance;
- brand;
- security and privacy;
- accessibility across several devices, operating systems, and applications;
- third-party integration;
- customer support;
- continued innovation; and
- pricing.

We believe we compete favorably across these factors and are largely unhindered by legacy constraints. However, some of our competitors may have greater name recognition, longer operating histories, more varied services, the ability to bundle a broader range of products and services, larger marketing budgets, established marketing relationships, access to larger user bases, major distribution agreements with hardware manufacturers and resellers, and greater financial, technical, and other resources.

Intellectual Property

We believe that our intellectual property rights are valuable and important to our business. We rely on patents, patent applications, trademarks, copyrights, trade secrets, know-how license agreements, confidentiality procedures, non-disclosure agreements, employee disclosure and invention assignment agreements, and other contractual rights to establish and protect our proprietary rights. In addition, from time to time we've purchased patents, inbound licenses, trademarks, domain names, and patent applications from third parties.

We have over 1,200 issued patents and more than 450 pending patent applications in the United States and abroad. These patents and patent applications seek to protect our proprietary inventions relevant to our business. In addition, we have a large number of inbound licenses to key patents in the file collaboration, storage, syncing, and sharing markets.

We have trademark rights in our name, our logo, and other brand indicia, and have trademark registrations for select marks in the United States and many other jurisdictions around the world. We also have registered domain names for websites that we use in our business, such as www.dropbox.com, and similar variations.

We intend to pursue additional intellectual property protection to the extent we believe it would be beneficial and cost effective. Despite our efforts to protect our intellectual property rights, they may not be respected in the future or may be invalidated, circumvented, or challenged. In addition, the laws of various foreign countries where our products are distributed may not protect our intellectual property rights to the same extent as laws in the United States.

Human Capital

At Dropbox, we believe that the world can work better. But that starts with us: building a team that emphasizes the kindness and collaboration needed to grow. We believe the strength of our workforce is one of the most significant contributors to our success. As of December 31, 2020, we had 2,760 full-time employees. Of our full-time employees, 2,346 were located in the United States and 414 were employees located outside of the United States. None of our employees are represented by a labor union. We have not experienced any work stoppages, and we believe that our employee relations are strong. In October 2020, we announced our new Virtual First work model pursuant to which remote work will become the primary experience for all of our employees. As a result, we intend for our workforce to become more distributed over time.

On January 13, 2021, we announced a reduction in our global workforce of approximately 11% in order to streamline our operations and reallocate our investments to support our strategic priorities. We provided employees impacted by this reduction in force with severance packages and job placement support.

Compensation and Benefits Program

Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business, contribute to our strategic goals and create long-term value for our stockholders. We provide employees with competitive compensation packages that include base salary, annual incentive bonuses, 401(k) with a company match, and equity awards tied to the value of our stock price. Our comprehensive benefits package also includes medical, dental, vision, and life and disability plans.

Employee Wellness and Development

We recognize the importance of the well-being of our employees. As we shift to our Virtual First work model, we remain committed to supporting their well-being and development as our workforce becomes more distributed over time and remote work becomes the primary experience for our employees. As a result, we provide our employees with a flexible quarterly allowance that can be used to cover expenses related to health and fitness, family and caregiver support, productivity and ergonomics, financial wellness, and learning and development programs, as well as resources to help implement remote work best practices. We also develop and provide access to internal learning and development resources to assist in professional development. We aim to preserve focus and work-life balance, particularly with a distributed workforce, by supporting flexible working arrangements and efficient remote collaboration practices.

In addition, the safety of our employees is paramount to our success. We have a physical security policy applicable to all our employees, a global physical security team that is empowered to protect the safety of our employees in the event of emergencies or disasters. In response to the COVID-19 pandemic, we shifted to a remote work model for substantially all our employees, provided allowances to cover certain remote work expenses, provided access to dependent care resources and subsidized dependent care expenses. We also established Global COVID-19 Workplace Health & Safety Standards, based on guidance from public health authorities, for situations where it was necessary for employees to enter our offices.

Diversity and Inclusion

We believe that an equitable and inclusive environment comprised of diverse teams produces more creative solutions, results in better and more innovative products, and is crucial to our efforts to attract and retain key talent. We are focused on building an inclusive culture and sustaining a diverse workforce through a variety of company initiatives. As part of that effort we have a number of executive-sponsored Employee Resource Groups, or ERGs, that provide support for diverse members of

our workforce by fostering an inclusive environment and providing professional development and community-building opportunities. In addition, we provide resources and training to employees at all levels to ensure that we are hiring, promoting and retaining diverse teams, as well as sponsor a number of professional development programs to support the advance of underrepresented employees at Dropbox.

Corporate Information

We were incorporated in May 2007 as Evenflow, Inc., a Delaware corporation, and changed our name to Dropbox, Inc. in October 2009. Our principal offices are located at 1800 Owens Street, San Francisco, California, 94158, and our telephone number is (415) 857-6800. Our Class A common stock is listed on the NASDAQ Global Select Market under the symbol “DBX.”

Available Information

Our website is located at <http://www.dropbox.com/>, our investor relations website is located at <http://investors.dropbox.com/>, and our blog is located at <https://blog.dropbox.com/topics/news>. We have used, and intend to continue to use, our investor relations website, our blog, press releases, public conference calls and webcasts to disclose material non-public information and to comply with our disclosure obligations under Regulation FD. The following filings are available through our investor relations website after we file them with the SEC: Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and our Proxy Statement for our annual meeting of stockholders. These filings are also available for download free of charge on our investor relations website. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company’s references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. In addition to the other information set forth in this Annual Report, you should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. Our business, results of operations, financial condition, or prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of the risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose all or part of your investment. In addition, the impacts of COVID-19 and any worsening of the economic environment may exacerbate the risks described below, any of which could have a material impact on us. This situation is changing rapidly and additional impacts may arise that we are not currently aware of.

Risks Related to Our Business and Operations

Our business depends on our ability to retain and upgrade paying users, and any decline in renewals or upgrades could adversely affect our future results of operations.

Our business depends upon our ability to maintain and expand our relationships with our users. Our business is subscription based, and paying users are not obligated to and may not renew their subscriptions after their existing subscriptions expire. As a result, we cannot provide assurance that paying users will renew their subscriptions utilizing the same tier of our products or upgrade to premium offerings. Renewals of subscriptions to our platform may decline or fluctuate because of several factors, such as dissatisfaction with our products, support, pricing, or mix of features, a user no longer having a need for our products, the availability of competitive products that are, or are perceived to be, less expensive, shifts in the mix of monthly and annual subscriptions or the impact of catastrophic events, such as the ongoing COVID-19 pandemic, on our paying users. In addition, some paying users downgrade or do not renew their subscriptions.

We encourage paying users to upgrade to our premium offerings by recommending additional features and through in-product prompts and notifications. We are focused on increasing recurring revenue and we believe that users that subscribe to our premium paid offerings demonstrate a propensity to retain and expand their deployments over time. We seek to expand within organizations through viral means by adding new users, having workplaces purchase additional products, or expanding the use of Dropbox into other departments within a workplace. We often see enterprise IT decision-makers deciding to adopt Dropbox after noticing substantial organic adoption by individuals and teams within the organization. If our paying users cancel their subscriptions or fail to renew, or if we fail to upgrade our paying users to premium offerings or expand within organizations, our business, results of operations, and financial condition may be harmed. Furthermore, we have and may continue to see an increase in customers opting for our monthly plans rather than our annual plans, including from users who upgrade to paid plans using mobile devices. As a result, if more of our users subscribe to our paid plans through mobile devices or otherwise opt for monthly plans, subscription renewals may fluctuate or decline. We believe these efforts, and certain fees from the referral of users to our partners, will generate increased recurring revenues from our existing user base. However, if users do not believe these offerings are compelling, they may not retain or expand their deployments, and we may not be able to increase the amount of recurring revenue from our user base.

Although it is important to our business that our users renew their subscriptions after their existing subscriptions expire and that we expand our commercial relationships with our users, given the volume of our users, we do not actively monitor the retention rates of our individual users. As a result, we may be unable to address any retention issues with specific users in a timely manner, which could harm our business.

Our future growth could be harmed if we fail to attract new users or convert registered users to paying users.

We must continually add new users to grow our business beyond our current user base and to replace users who choose not to continue to use our platform. Historically, our revenue has been driven by our self-serve model, and we generate more than 90% of our revenue from self-serve channels. Any decrease in user satisfaction with our products or support could harm our brand, word-of-mouth referrals, and ability to grow.

Additionally, many of our users initially access our platform free of charge. We strive to demonstrate the value of our platform to our registered users, thereby encouraging them to convert to paying users through in-product prompts and notifications, and time-limited trials of paid subscription plans. As of December 31, 2020, we served over 700 million registered users but only 15.48 million paying users. The actual number of unique users is lower than we report as one person

may register more than once for our platform. As a result, we have fewer unique registered users that we may be able to convert to paying users. A majority of our registered users may never convert to a paid subscription to our platform, and failure to convert users to a paid subscription will restrict our ability to grow our revenue.

In addition, our user growth rate has and may continue to slow in the future as our market penetration rates increase and we turn our focus to converting registered users to paying users rather than growing the total number of registered users. The availability of less expensive and bundled competitive products also has and may continue to slow our user growth rate and negatively impact our ability to convert registered users to paying users. If we are not able to continue to expand our user base or fail to convert our registered users to paying users, demand for our paid services and our revenue may grow more slowly than expected or decline. Furthermore, catastrophic events that financially impact our registered users and other prospective paying users, such as the ongoing COVID-19 pandemic, may cause these users to delay or reduce technology spending, which may impact our ability to convert registered users or otherwise attract new paying users.

We have a limited history of operating with a Virtual First workforce and the long-term impact on our financial results and business operations is uncertain.

In October 2020, we announced a new Virtual First work model pursuant to which remote work will become the primary experience for all of our employees and our intention is for our workforce to become more distributed over time. However, we have a limited history of operating with a Virtual First workforce and, although we anticipate that our shift to a new Virtual First work model will have a long-term positive impact on our financial results and business operations, the impact remains uncertain. Additionally, there is no guarantee that we will realize any anticipated benefits to our business, including any cost savings, operational efficiencies, or productivity.

Our shift to Virtual First could make it increasingly difficult to manage our business and adequately oversee our employees and business functions, potentially resulting in harm to our company culture, increased employee attrition, and the loss of key personnel, as well as potentially negatively impacting product research and development and the growth of our business. We may also experience an increased risk of privacy and data security breaches involving our data or our users' content. Any of these factors could adversely affect our financial condition and operating results.

In addition, we expect that we will need less office space than we are currently contractually committed to leasing and as a result, we have and may in the future record impairment charges related to the office spaces we no longer expect to need, which has impacted and may in the future impact our ability to achieve GAAP profitability in future periods. Furthermore, a prolonged recessionary period and industry shifts towards remote work, including as a result of the COVID-19 pandemic, may prevent us from finding subtenants for our unused office space on favorable terms or at all. In the event that we are unable to sublease our space on favorable terms or at all, or if we are able to sublease space but our subtenants fail to make lease payments to us or otherwise default on their obligations to us, we may generate less sublease income than we have currently estimated, continue to incur substantial payment obligations under our leases and incur additional or higher impairment charges than we have currently estimated, any of which could materially and adversely affect our business, cash flows, results of operations, profitability, and financial condition.

We operate in competitive markets, and we must continue to compete effectively.

The market for content collaboration platforms is competitive and rapidly changing. Certain features of our platform compete in the cloud storage market with products offered by Microsoft, Amazon, Apple and Google and in the content collaboration market with products offered by Microsoft, Atlassian, Slack, and Google. We compete with Box on a more limited basis in the cloud storage market for deployments by large enterprises. We also compete with smaller private companies that offer point solutions in the cloud storage market or the content collaboration market. We believe the principal competitive factors in our markets include the following:

- user-centric design;
- ease of adoption and use;
- scale of user network;
- features and platform experience
- performance;

- brand;
- security and privacy
- accessibility across several devices, operating system, and applications;
- third-party integration;
- customer support;
- continued innovation; and
- pricing.

With the introduction of new technologies and market entrants, we expect competition to intensify. Many of our actual and potential competitors or alliances among competitors benefit from competitive advantages over us, such as greater name recognition, longer operating histories, more varied products and services, larger marketing budgets, more established marketing relationships, access to larger user bases, major distribution agreements with hardware manufacturers and resellers, and greater financial, technical, and other resources. Some of our competitors may make acquisitions or enter into strategic relationships to offer a broader range of products and services than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our platform is also sensitive to price. Many factors, including our marketing, user acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Certain of our competitors offer, or may in the future offer, lower-priced or free products or services that compete with our platform or may bundle and offer a broader range of products and services.

Similarly, certain competitors may use marketing strategies that enable them to acquire users at a lower cost than us. There can be no assurance that we will not be forced to engage in price-cutting initiatives or to increase our marketing and other expenses to attract and retain users in response to competitive pressures, either of which could materially and adversely affect our business, results of operations, and financial condition.

Our business could be damaged, and we could be subject to liability if there is any unauthorized access to our data or our users' content, including through privacy and data security breaches.

The use of our platform involves the transmission, storage, and processing of user content, some of which may be considered personally identifiable, confidential, or sensitive. We face security threats from malicious third parties that could obtain unauthorized access to our systems, infrastructure, and networks. We anticipate that these threats will continue to grow in scope and complexity over time. For example, in 2016, we learned that an old set of Dropbox user credentials for approximately 68 million accounts was released. These credentials consisted of email addresses and passwords protected by cryptographic techniques known as hashing and salting. Hashing and salting can make it more difficult to obtain the original password, but may not fully protect the original password from being obtained. We believe these Dropbox user credentials were obtained in 2012 and related to a security incident we disclosed to users. In response, we notified all existing users we believed to be affected and completed a password reset for anyone who had not updated their password since mid-2012. We have responded to this event by expanding our security team and data monitoring capabilities and continuing to work on features such as two-factor authentication to increase protection of user information. While we believe our corrective actions will reduce the likelihood of similar incidents occurring in the future, third parties might use techniques that we are unable to defend against to compromise and infiltrate our systems, infrastructure, and networks.

Emerging and evolving cybersecurity threats such as the recently reported attack on SolarWinds pose unique challenges and involve sophisticated threat actors. In this fast-changing threat environment, we have undertaken a comprehensive review of our security posture to identify gaps, threats, and vulnerabilities. As a result, we are actively taking additional and ongoing steps to further strengthen our cybersecurity capabilities. If we fail to respond appropriately to any identified gaps, threats or vulnerabilities, including by providing adequate funding and prioritizing strategic initiatives, we may face greater risk that an unauthorized party will obtain access to our systems, networks, or data. We may fail to detect the existence of a breach of user content and be unable to prevent unauthorized access to user and company content. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and are often not recognized until launched against a

target. They may originate from less regulated or remote areas around the world, or from state-sponsored actors. If our security measures are breached, or our users' content is otherwise accessed through unauthorized means, or if any such actions are believed to occur, our platform may be perceived as insecure, and we may lose existing users or fail to attract and retain new users.

We may rely on third parties when deploying our infrastructure, and in doing so, expose it to security risks outside of our direct control. We rely on outside vendors and contractors to perform services necessary for the operation of the business, and they may fail to adequately secure our user and company content data. This risk may increase when vendors and contractors work remotely, such as during the ongoing COVID-19 pandemic.

In addition, certain developers or other partners who create applications that integrate with our platform, may receive or store information provided by us or by our users through these applications. If these third parties or developers fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our data or our users' data may be improperly accessed, used, or disclosed.

Third parties may attempt to compromise our employees and their privileged access into internal systems to gain access to accounts, our information, our networks, or our systems. Employee error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in an actual or perceived breach of user privacy. This risk may be heightened as we transition to a Virtual First and increasingly distributed workforce. In addition, our users may also disclose or lose control of their passwords, or use the same or similar passwords on third parties' systems, which could lead to unauthorized access to their accounts on our platform.

Any unauthorized or inadvertent access to, or an actual or perceived security breach of, our systems, infrastructure, or networks could result in an actual or perceived loss of, or unauthorized access to, our data or our users' content, regulatory investigations and orders, litigation, indemnity obligations, damages, penalties, fines, and other costs in connection with actual and alleged contractual breaches, violations of applicable laws and regulations, and other liabilities. Any such incident could also materially damage our reputation and harm our business, results of operations, and financial condition, including reducing our revenue, causing us to issue credits to users, negatively impacting our ability to accept and process user payment information, eroding our users' trust in our services and payment solutions, subjecting us to costly user notification or remediation, harming our ability to retain users, harming our brand, or increasing our cost of acquiring new users. We maintain errors, omissions, and cyber liability insurance policies covering certain security and privacy damages. However, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Further, if a high-profile security breach occurs with respect to another content collaboration solutions provider, our users and potential users could lose trust in the security of content collaboration solutions providers generally, which could adversely impact our ability to retain users or attract new ones.

Our business could be harmed by any significant disruption of service on our platform or loss of content.

Our brand, reputation, and ability to attract, retain, and serve our users are dependent upon the reliable performance of our platform, including our underlying technical infrastructure. Our users rely on our platform to store digital copies of their valuable content, including financial records, business information, documents, photos, and other important content. Our technical infrastructure may not be adequately designed with sufficient reliability and redundancy to avoid performance delays or outages that could be harmful to our business, and turnover in our personnel, may additionally impact our ability to respond to any such delays or outages. If our platform is unavailable when users attempt to access it, or if it does not load as quickly as they expect, users may not use our platform as often in the future, or at all.

As our user base and the amount and types of information stored, synced, and shared on our platform continues to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy the needs of our users. The vast majority of user content is stored at our own custom-built infrastructure in co-location facilities that we directly lease and operate. As we add to our infrastructure, we may move or transfer additional content.

Further, as we continue to grow and scale our business to meet the needs of our users, we may overestimate or underestimate our infrastructure capacity requirements, which could adversely affect our results of operations. The costs associated with leasing and maintaining our custom-built infrastructure in co-location facilities and third-party datacenters already constitute a significant portion of our capital and operating expenses. We continuously evaluate our short- and long-term infrastructure capacity requirements to ensure adequate capacity for new and existing users while minimizing unnecessary excess capacity costs. If we overestimate the demand for our platform and therefore secure excess infrastructure capacity, our operating margins could be reduced. If we underestimate our infrastructure capacity requirements, we may not be able to

service the expanding needs of new and existing users, and our hosting facilities, network, or systems may fail. Additionally, our ability to accurately perform capacity planning is dependent on the reliability of the global supply chain for hardware, network, and platform infrastructure equipment. Significant and unforeseen disruptions to the supply chain, including those resulting from the COVID-19 pandemic, in addition to competition for a limited supply of such equipment, may impede our ability to meet our short-term or long-term infrastructure capacity requirements. Furthermore, our efforts to mitigate such disruptions and compete for such equipment may impact the timing and magnitude of our infrastructure spending, resulting in unexpected increases in shorter-term or longer-term costs than originally projected.

In addition, the datacenters that we use are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, any of which could disrupt our service, destroy user content, or prevent us from being able to continuously back up or record changes in our users' content. In the event of significant physical damage to one of these datacenters, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. Damage or interruptions to these datacenters could harm our platform and business.

The full extent of the impacts of the COVID-19 pandemic on our business is currently unknown, but it may adversely affect our financial results as well as our business operations.

The full extent of the impacts of the COVID-19 pandemic on our financial results and business operations are currently unknown and cannot be estimated with any degree of certainty. Impacts to our financial results may include, without limitation, (1) negative impacts to our current and prospective users' purchases or renewals of paid licenses for access to our platform, delays or defaults on payment obligations, which could negatively affect our revenues and cash flows, (2) modifications to net payment terms or invoice frequency, which could negatively affect our cash flows, (3) fluctuations in foreign currency exchange rates, which have and may in the future negatively impact our results of operations and cash flows, and (4) decreases in interest rates, which have and may continue to reduce interest income. Impacts to our business operations may include, without limitation, (1) disruptions to our sales operations and marketing efforts, (2) negative impacts to the financial condition or operations of our vendors and business partners, as well as disruptions to the supply chain of hardware needed to offer our services, (3) disruptions to our ability to conduct product development and other important business activities, and (4) potential postponement or cancellation of previously planned investments or other initiatives. Accordingly, the COVID-19 pandemic may have a negative impact on our financial results as well as our business operations, the magnitude and duration of which we are currently unable to predict. Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and other capital markets which may adversely impact our stock price.

We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform or for content collaboration solutions in general could negatively impact our business.

We generate, and expect to continue to generate, revenue from the sale of subscriptions to our platform. As a result, widespread acceptance and use of content collaboration solutions in general, and our platform in particular, is critical to our future growth and success. If the content collaboration market fails to grow or grows more slowly than we currently anticipate, or if the current shift to remote or distributed work does not materialize into a longer-term trend, demand for our platform could be negatively affected.

Changes in user preferences for content collaboration may have a disproportionately greater impact on us than if we offered multiple platforms or disparate products. Demand for content collaboration solutions in general, and our platform in particular, is affected by a number of factors, many of which are beyond our control. Some of these potential factors include:

- awareness of the content collaboration category generally;
- availability of products and services that compete with ours;
- the impact, scale, and duration, of trends towards or away from remote or distributed work;
- ease of adoption and use;
- features and platform experience;
- performance;
- brand;

- security and privacy;
- customer support; and
- pricing.

The content collaboration market is subject to rapidly changing user demand and trends in preferences. If we fail to successfully predict and address these changes and trends, meet user demands, or achieve more widespread market acceptance of our platform, our business, results of operations, and financial condition could be harmed.

Our business depends upon the interoperability of our platform across devices, operating systems, and third-party applications that we do not control.

One of the most important features of our platform is its broad interoperability with a range of diverse devices, operating systems, and third-party applications. Our platform is accessible from the web and from devices running Windows, Mac OS, iOS, Android, WindowsMobile, and Linux. We also have integrations with Microsoft, Adobe, Apple, Salesforce, Atlassian, Slack, BetterCloud, Google, IBM, Cisco, VMware, Okta, Symantec, Palo Alto Networks, Zoom, and a variety of other productivity, collaboration, data management, and security vendors. We are dependent on the accessibility of our platform across these third-party operating systems and applications that we do not control. Several of our competitors own, develop, operate, or distribute operating systems, app stores, third-party datacenter services, and other software, and also have material business relationships with companies that own, develop, operate, or distribute operating systems, applications markets, third-party datacenter services, and other software that our platform requires in order to operate. Moreover, some of these competitors have inherent advantages developing products and services that more tightly integrate with their software and hardware platforms or those of their business partners.

Third-party services and products are constantly evolving, and we may not be able to modify our platform to assure its compatibility with that of other third parties following development changes. In addition, some of our competitors may be able to disrupt the operations or compatibility of our platform with their products or services, or exert strong business influence on our ability to, and terms on which we, operate and distribute our platform. For example, we currently offer products that directly compete with several large technology companies that we rely on to ensure the interoperability of our platform with their products or services. We also rely on these companies to make our mobile applications available through their app stores. As our respective products evolve, we expect this level of competition to increase. Should any of our competitors modify their products or standards in a manner that degrades the functionality of our platform or gives preferential treatment to competitive products or services, whether to enhance their competitive position or for any other reason, the interoperability of our platform with these products could decrease and our business, results of operations, and financial condition could be harmed.

Failure to respond to rapid technological changes, extend our platform, or develop new features or products may harm our ability to compete effectively which would adversely affect our business.

The content collaboration market is characterized by rapid technological change and frequent new product and service introductions. Our ability to grow our user base and increase revenue from existing users will depend heavily on our ability to enhance and improve our platform, introduce new features and products, increase our strategic partnerships with third parties, and interoperate across an increasing range of devices, operating systems, and third-party applications. Users may require features and capabilities that our current platform does not have. In addition, while we believe current trends towards remote or distributed work will prove to be significant and long lasting, and that these trends will open up increased market opportunities for us, such trends or opportunities may not materialize or, if they do, we may not be able to develop new features or products, or enhance our existing offerings, sufficiently to take advantage of them. We invest significantly in research and development, and our goal is to focus our spending on measures that improve quality and ease of adoption and create organic user demand for our platform. For example, in 2017, we released Smart Sync, an advanced productivity feature, and introduced Paper, a collaborative product experience. In 2018, we announced Dropbox Extensions, which allows users to initiate and manage workflows with third-party partner applications from Dropbox. More recently, in 2019, we launched Dropbox Spaces, an evolution of the shared folder which creates a collaborative workspace for individuals and teams to work together. There is no assurance that our enhancements to our platform or our new product experiences, partnerships, features, or capabilities will be compelling to our users or gain market acceptance. If our research and development investments do not accurately anticipate user demand, we are unsuccessful in establishing or maintaining our strategic partnerships, or if we fail to develop our platform in a manner that satisfies user preferences in a timely and cost-effective manner, we may fail to retain our existing users or increase demand for our platform.

The introduction of new products and services by competitors or the development of entirely new technologies to replace existing offerings could make our platform obsolete or adversely affect our business, results of operations, and financial condition. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new product experiences, features, or capabilities. We also may experience broad-based business or economic disruptions that could adversely affect the productivity of our employees and result in delays in the development or implementation process. For example, as a result of the ongoing COVID-19 pandemic, we are temporarily requiring substantially all of our employees to work remotely, which may lead to disruptions and decreased productivity that could result in delays in our product development process. The risk of such disruptions and decreased productivity may persist, as we transition to a Virtual First workforce. We have in the past experienced delays in our internally planned release dates of new features and capabilities, and there can be no assurance that new product experiences, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by users brought against us, all of which could have a material and adverse effect on our reputation, business, results of operations, and financial condition. Moreover, new features may require substantial investment, and we have no assurance that such investments will be successful. If users do not widely adopt our new product experiences, features, and capabilities, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new features and capabilities to our platform on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business, results of operations, and financial condition could be adversely affected.

We may not successfully manage our growth or plan for future growth.

Since our founding in 2007, we have experienced rapid growth. The growth and expansion of our business, including the introduction of new features and products, places a continuous significant strain on our management, operational, and financial resources. As we introduce new products and features, and our user base and third-party relationships expand, our information technology systems, organizational structures, and internal controls and procedures may not be adequate to support our operations. In addition, we face challenges of integrating, developing, and motivating an increasingly distributed employee base in various countries around the world. These challenges may be heightened as we transition to a Virtual First workforce and seek to align our resources in order to create a more nimble and streamlined organization. Certain members of our management have not previously worked together for an extended period of time and some do not have prior experience managing a public company, which may affect how they manage our growth. Managing our growth will also require significant expenditures and allocation of valuable management resources.

In addition, the expansion of our business may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business, results of operations, and financial condition could be harmed.

We depend on our key personnel and other highly qualified personnel, and if we fail to attract, integrate, and retain our personnel, and maintain our unique corporate culture, our business could be harmed.

We depend on the continued service and performance of our key personnel. In particular, Andrew W. Houston, our Chief Executive Officer and one of our co-founders, is critical to our vision, strategic direction, culture, and offerings. From time to time, there have been changes in our management team resulting from the hiring or departure of our executives, and there may be additional changes in the future. For example, Olivia Nottebohm stepped down as our Chief Operating Officer in February 2021. While we seek to manage these transitions carefully, such changes may result in a loss of institutional knowledge and may cause disruptions to our business. If we fail to successfully integrate new key personnel into our organization or if key employees are unable to successfully transition into new roles, our business could be adversely affected.

All of our officers and key personnel are at-will employees. In addition, many of our key technologies and systems are custom-made for our business by our key personnel. The loss of key personnel, including key members of our management team, as well as certain of our key marketing, sales, product development, or technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. In addition, while we believe our new Virtual First strategy will give us the opportunity to realign our resources in order to create a more nimble and streamlined organization, we can provide no assurance that we will be able to successfully execute on these plans, and failure to successfully manage these transitions may cause disruptions to our business.

To execute our business plan, we must attract and retain highly qualified personnel. Competition for these employees is intense, particularly in the San Francisco Bay Area where our headquarters is located, and we may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to

experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. As we transition to a Virtual First workforce, our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire, integrate, or retain sufficient numbers of qualified individuals. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the internet and high-technology industries, job candidates often consider the value of the equity they are to receive in connection with their employment. Employees may be more likely to leave us if the shares they own or the shares underlying their equity incentive awards have significantly appreciated or significantly reduced in value. Many of our employees may receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Furthermore, our workforce reduction in January 2021 may result in increased attrition beyond our intended reduction-in-force, reduce employee morale and negatively impact employee recruiting and retention. If we fail to attract new personnel, or fail to retain and motivate our current personnel, our business and growth prospects could be harmed.

Additionally, if we do not maintain and continue to develop our corporate culture as we grow and evolve, it could harm our ability to foster the innovation, creativity, and teamwork we believe that we need to support our growth. Additions of executive-level management, significant numbers of new employees, our workforce reduction and higher employee turnover could significantly and adversely impact our culture, as could our transition to a Virtual First workforce.

Our lack of a significant outbound sales force may limit the potential growth of our business.

Historically, our business model has been driven by organic adoption and viral growth, with more than 90% of our revenue generated from self-serve channels. As a result, we do not have a significant outbound sales force, which has enabled us to be more efficient with our sales and marketing spend. Furthermore, as part of our workforce reduction in January 2021 we have reduced the size of our outbound sales force to simplify and drive further efficiencies in our outbound sales operations. Although we believe our business model can continue to scale without a large outbound sales force, our word-of-mouth and user referral marketing model may not continue to be as successful as we anticipate, and our limited experience selling directly to large organizations through our outbound sales force may impede our future growth. As we continue to scale our business, an enhanced sales infrastructure could assist in reaching larger organizations and growing our revenue. Identifying and recruiting additional qualified sales personnel and training them would require significant time, expense, and attention, and would significantly impact our business model. Further, adding more sales personnel would change our cost structure and results of operations, and we may have to reduce other expenses in order to accommodate a corresponding increase in sales and marketing expenses. If our limited outbound sales force and lack of experience selling and marketing to large organizations prevents us from reaching larger organizations and growing our revenue, and if we are unable to hire, develop, and retain talented sales personnel in the future, our business, results of operations, and financial condition could be adversely affected.

We may expand sales to large organizations, which could lengthen sales cycles and result in greater deployment challenges.

As our business evolves, we may need to invest more resources into sales to large organizations. Large organizations may undertake a significant evaluation and negotiation process, which can lengthen our sales cycle. We may also face unexpected deployment challenges with large organizations or more complicated deployment of our platform. Large organizations may demand more configuration and integration of our platform or require additional security management or control features. We may spend substantial time, effort, and money on sales efforts to large organizations without any assurance that our efforts will produce any sales. Additionally, our ability to sell via an outbound sales force has been, and may continue to be, impeded by catastrophic events, including public health epidemics such as the ongoing COVID-19 pandemic, that limit our ability to travel or meet in person, as well as the reduction in the size of our outbound sales force as part of our workforce reduction in January 2021. As a result, sales to large organizations may lead to greater unpredictability in our business, results of operations, and financial condition.

Any failure to offer high-quality customer support may harm our relationships with our users and our financial results.

We have designed our platform to be easy to adopt and use with minimal to no support necessary. Any increased user demand for customer support could increase costs and harm our results of operations. In addition, as we continue to grow our operations and support our global user base, we need to be able to continue to provide efficient customer support that meets our customers' needs globally at scale. Paying users receive additional customer support features and the number of our paying users has grown significantly, which will put additional pressure on our support organization. For example, the number of paying users has grown from 8.81 million as of December 31, 2016, to 15.48 million as of December 31, 2020. If we are unable to provide efficient customer support globally at scale, our ability to grow our operations may be harmed and we may need to hire additional support personnel, which could harm our results of operations. Our new user signups are highly dependent on our business reputation and on positive recommendations from our existing users. Any failure to maintain high-quality customer

support, or a market perception that we do not maintain high-quality customer support, could harm our reputation, business, results of operations, and financial condition.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of users will be impaired and our business, results of operations, and financial condition will be harmed.

We believe that our brand identity and awareness have contributed to our success and have helped fuel our efficient go-to-market strategy. We also believe that maintaining and enhancing the Dropbox brand is critical to expanding our base of users. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Any unfavorable publicity or consumer perception of our platform or the providers of content collaboration solutions generally could adversely affect our reputation and our ability to attract and retain users. Additionally, if we fail to promote and maintain the Dropbox brand, our business, results of operations, and financial condition will be materially and adversely affected.

We are continuing to expand our operations outside the United States, where we may be subject to increased business and economic risks that could impact our results of operations.

We have paying users across 180 countries and approximately half of our revenue in the year ended December 31, 2020 was generated from paying users outside the United States. We expect to continue to expand our international operations, which may include employees working in new jurisdictions and providing our platform in additional languages. Any new markets or countries into which we attempt to sell subscriptions to our platform may not be receptive. For example, we may not be able to expand further in some markets if we are not able to satisfy certain government- and industry-specific requirements. In addition, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. International expansion has required, and will continue to require, investment of significant funds and other resources. Operating internationally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, data protection, consumer protection, and unsolicited email, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance;
- recruiting and retaining talented and capable employees outside the United States, and maintaining our company culture across all of our offices, including as we shift to a Virtual First and increasingly distributed workforce;
- providing our platform and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our platform and features to ensure that they are culturally appropriate and relevant in different countries;
- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;
- operating in jurisdictions that do not protect intellectual property rights to the same extent as does the United States;
- compliance by us and our business partners with anti-corruption laws, import and export control laws, tariffs, trade barriers, economic sanctions, and other regulatory limitations on our ability to provide our platform in certain international markets;
- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;
- political and economic instability;
- changes in diplomatic and trade relationships, including the imposition of new trade restrictions, trade protection measures, import or export requirements, trade embargoes and other trade barriers;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate;

- higher costs of doing business internationally, including increased accounting, travel, infrastructure, and legal compliance costs; and
- the impact of natural disasters and public health epidemics on employees, travel and the global economy, including the ongoing global COVID-19 pandemic

Compliance with laws and regulations applicable to our global operations substantially increases our cost of doing business in international jurisdictions. We may be unable to keep current with changes in laws and regulations as they change. Although we have implemented policies and procedures designed to support compliance with these laws and regulations, there can be no assurance that we will always maintain compliance or that all of our employees, contractors, partners, and agents will comply. Any violations could result in regulatory investigations and enforcement actions, fines, civil and criminal penalties, damages, injunctions, or reputational harm. If we are unable comply with these laws and regulations or manage the complexity of our global operations successfully, our business, results of operations, and financial condition could be adversely affected.

We depend on our infrastructure and third-party datacenters, and any disruption in the operation of these facilities or failure to renew the services could adversely affect our business.

We host our services and serve all of our users using a combination of our own custom-built infrastructure that we lease and operate in co-location facilities and third-party datacenter services such as Amazon Web Services. While we typically control and have access to the servers we operate in co-location facilities and the components of our custom-built infrastructure that are located in those co-location facilities, we control neither the operation of these facilities nor our third-party service providers. Furthermore, we have no physical access or control over the services provided by Amazon Web Services.

Datacenter leases and agreements with the providers of datacenter services expire at various times. The owners of these datacenters and providers of these datacenter services may have no obligation to renew their agreements with us on commercially reasonable terms, or at all. Problems faced by datacenters, with our third-party datacenter service providers, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their users, including us, could adversely affect the experience of our users. Our third-party datacenter operators could decide to close their facilities or cease providing services without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party datacenter operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict.

If the datacenters and service providers that we use are unable to keep up with our growing needs for capacity, or if we are unable to renew our agreements with datacenters, and service providers on commercially reasonable terms, we may be required to transfer servers or content to new datacenters or engage new service providers, and we may incur significant costs, and possible service interruption in connection with doing so. Any changes in third-party service levels at datacenters or any real or perceived errors, defects, disruptions, or other performance problems with our platform could harm our reputation and may result in damage to, or loss or compromise of, our users' content. Interruptions in our platform might, among other things, reduce our revenue, cause us to issue refunds to users, subject us to potential liability, harm our reputation, or decrease our renewal rates.

We have relationships with third parties to provide, develop, and create applications that integrate with our platform, and our business could be harmed if we are not able to continue these relationships.

We use software and services licensed and procured from third parties to develop and offer our platform. We may need to obtain future licenses and services from third parties to use intellectual property and technology associated with the development of our platform, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software or services required for the development and maintenance of our platform could result in delays in the provision of our platform until equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which could harm our platform and business. Any errors or defects in third-party software or services could result in errors or a failure of our platform, which could harm our business, results of operations, and financial condition.

We also depend on our ecosystem of developers to create applications that will integrate with our platform. As of December 31, 2020, Dropbox was receiving over 60 billion API calls per month, and more than 750,000 developers had registered and built applications on our platform. Our reliance on this ecosystem of developers creates certain business risks relating to the quality of the applications built using our APIs, service interruptions of our platform from these applications, lack of service support for these applications, and possession of intellectual property rights associated with these applications.

We may not have the ability to control or prevent these risks. As a result, issues relating to these applications could adversely affect our business, brand, and reputation.

Our use of open source software could negatively affect our ability to offer and sell subscriptions to our platform and subject us to possible litigation.

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our platform that incorporates the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt and harm our business, results of operations, and financial condition.

Our ability to sell subscriptions to our platform could be harmed by real or perceived material defects or errors in our platform.

The software technology underlying our platform is inherently complex and may contain material defects or errors, particularly when first introduced or when new features or capabilities are released. We have from time to time found defects or errors in our platform, and new defects or errors in our existing platform or new software may be detected in the future by us or our users. There can be no assurance that our existing platform and new software will not contain defects. Any real or perceived errors, failures, vulnerabilities, or bugs in our platform could result in negative publicity or lead to data security, access, retention, or other performance issues, all of which could harm our business. The costs incurred in correcting such defects or errors may be substantial and could harm our results of operations and financial condition. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and could harm our business, results of operations, and financial condition.

We also utilize hardware purchased or leased and software and services licensed from third parties on our platform. Any defects in, or unavailability of, our or third-party software, services, or hardware that cause interruptions to the availability of our services, loss of data, or performance issues could, among other things:

- cause a reduction in revenue or delay in market acceptance of our platform;
- require us to issue refunds to our users or expose us to claims for damages;
- cause us to lose existing users and make it more difficult to attract new users;
- divert our development resources or require us to make extensive changes to our platform, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

We have acquired, and may in the future acquire, other businesses, and we may also receive offers to be acquired, any of which could require significant management attention, disrupt our business, or dilute stockholder value.

As part of our business strategy, we have acquired, and may in the future acquire, other companies, employee teams, or technologies to complement or expand our products, obtain personnel, or otherwise grow our business. For example, in the first fiscal quarter of 2019, we acquired HelloSign, an e-signature and document workflow platform, to expand our content collaboration capabilities to include additional business critical workflows. The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

We have limited experience making acquisitions. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve the anticipated benefits from such acquisitions, due to a number of factors, including:

- acquisition-related costs, liabilities, or tax impacts, some of which may be unanticipated;
- difficulty integrating and retaining the personnel, intellectual property, technology infrastructure, and operations of an acquired business;
- ineffective or inadequate, controls, procedures, or policies at an acquired business;
- multiple product lines or services offerings, as a result of our acquisitions, that are offered, priced, and supported differently;
- potential unknown liabilities or risks associated with an acquired business, including those arising from existing contractual obligations or litigation matters;
- inability to maintain relationships with key customers, suppliers, and partners of an acquired business;
- lack of experience in new markets, products or technologies;
- diversion of management's attention from other business concerns; and
- use of resources that are needed in other parts of our business.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill. We review goodwill for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to record impairment charges based this assessment, which could adversely affect our results of operations.

We may not be able to integrate acquired businesses successfully or effectively manage the combined company following an acquisition. If we fail to successfully integrate acquisitions, or the people or technologies associated with those acquisitions, the results of operations of the combined company could be adversely affected. Any integration process will require significant time, resources, and attention from management, and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could adversely affect our business, results of operations, and financial condition.

Any acquisition we complete could be viewed negatively by users, developers, partners, or investors, and could have adverse effects on our existing business relationships. In addition, we may not successfully evaluate or utilize acquired technology or accurately forecast the financial impact of an acquisition transaction, including accounting charges.

We may have to pay a substantial portion of our available cash, incur debt, or issue equity securities to pay for any such acquisitions, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur more debt, it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to flexibly operate our business.

Our business may be significantly impacted by a change in the economy, including any resulting effect on consumer or business spending.

Our business may be affected by changes in the economy generally, including any resulting effect on spending by our business and consumer users. Some of our users may view a subscription to our platform as a discretionary purchase, and our paying users may reduce their discretionary spending on our platform during an economic downturn. If an economic downturn were to occur, we may experience such a reduction in the future, especially in the event of a prolonged recessionary period. For example, the ongoing COVID-19 pandemic and efforts to control such pandemic have resulted in economic uncertainty worldwide and may cause, or have already caused, an economic recession in the United States and elsewhere, which could cause current and prospective paying users to delay, decrease, or cancel purchases of our products and services, or delay or default on their payment obligations. As a result, our business, results of operations, and financial condition may be significantly affected by changes in the economy generally.

Our revolving credit facility provides our lenders with a first-priority lien against substantially all of our intellectual property and certain other assets, and contains financial covenants and other restrictions on our actions that may limit our operational flexibility or otherwise adversely affect our results of operations.

We are party to a revolving credit and guarantee agreement, as amended, which contains a number of covenants that limit our ability and our subsidiaries' ability to, among other things, incur additional indebtedness, pay dividends, make redemptions and repurchases of stock, make investments, loans and acquisitions, create liens, engage in transactions with affiliates, merge or consolidate with other companies, or sell substantially all of our assets. We are also required to maintain certain financial covenants, including a maximum consolidated leverage ratio and a minimum liquidity balance. The terms of our revolving credit facility may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs or to execute preferred business strategies. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy and compete against companies who are not subject to such restrictions.

A failure by us to comply with the covenants or payment requirements specified in our credit agreement, as amended, could result in an event of default under the agreement, which would give the lenders the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral we granted to them, which consists of substantially all our intellectual property and certain other assets. If the debt under our revolving credit facility were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our business, cash flows, results of operations, and financial condition. Even if we were able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us.

Our operations may be interrupted and our business, results of operations, and financial condition could be adversely affected if we default on our leasing or credit obligations.

We finance a significant portion of our expenditures through leasing arrangements, and we may enter into additional similar arrangements in the future. As of December 31, 2020, we had an aggregate of \$1,624.1 million of commitments to settle contractual obligations. In particular, we utilize both finance and operating leases to finance some of our equipment, datacenters and offices. In addition, we may draw upon our revolving credit facility to finance our operations or for other corporate purposes. If we default on these leasing or credit obligations, our leasing partners and lenders may, among other things:

- require repayment of any outstanding lease obligations;
- terminate our leasing arrangements;
- terminate our access to the leased datacenters we utilize;
- stop delivery of ordered equipment;
- sell or require us to return our leased equipment;
- require repayment of any outstanding amounts drawn on our revolving credit facility;
- terminate our revolving credit facility; or
- require us to pay significant fees, penalties, or damages.

If some or all of these events were to occur, our operations may be interrupted and our ability to fund our operations or obligations, as well as our business, results of operations, and financial condition, could be adversely affected.

Risks Related to Our Financial Performance or Results

Our revenue growth rate has declined in recent periods and may continue to slow in the future.

We have experienced significant revenue growth in prior periods. However, our rates of revenue growth have slowed and may continue to slow in future periods. Many factors may contribute to declines in our growth rates, including higher market penetration, increased competition, particularly from the availability of less expensive and bundled competitive products, slowing demand for our platform, a decrease in the growth of the overall content collaboration market, a failure by us to continue capitalizing on growth opportunities, the impact of catastrophic events on economic conditions or on our current and prospective paying users, and the maturation of our business, among others. You should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. If our growth rates decline, investors' perceptions of our business and the trading price of our Class A common stock could be adversely affected.

We have a history of net losses, we may increase expenses in the future, and we may not be able to achieve or maintain profitability.

We have incurred net losses on an annual basis since our inception. We incurred net losses of \$256.3 million, \$52.7 million, and \$484.9 million in the years ended December 31, 2020, 2019, and 2018, respectively, and we had an accumulated deficit of \$2,241.4 million as of December 31, 2020. While we have been profitable on a GAAP basis in prior fiscal quarters, we have not been profitable for a full fiscal year, and we may not achieve or maintain profitability in future periods. As we strive to grow our business, expenses may increase, particularly as we continue to make investments to scale our business. For example, we will need an increasing amount of technical infrastructure to continue to satisfy the needs of our user base. Our research and development expenses may also increase as we plan to continue to hire employees for our engineering, product, and design teams to support these efforts. These investments may not result in increased revenue or growth in our business or our revenue may not grow to the extent we expect and expense growth may outpace revenue. Further, we have created mobile applications and mobile versions of Dropbox that are distributed to users primarily through app stores operated by Apple and Google, each of whom charge us in-application purchase fees. As a result, if more of our users subscribe to our products through mobile applications, these fees may have an adverse impact on our results of operations. In addition, although we anticipate that our shift to a new Virtual First work model will have a long-term positive impact on our financial results and business operations, the impact remains uncertain. We have incurred impairment charges related to our facilities and may incur additional or unanticipated expense related to subleasing our facilities, including lower than anticipated sublease income that may result in additional or higher impairment charges than we have currently estimated, particularly if we are unable to sublease our unused office space on favorable terms or at all or if our subtenants fail to make lease payments to us in connection with our shift to a Virtual First model. We may also encounter unforeseen or unpredictable factors, including unforeseen operating expenses, complications, or delays, which may result in increased costs, or cause us to generate less sublease income than we have currently estimated. Furthermore, it is difficult to predict the size and growth rate of our market, user demand for our platform or for any new features or products we develop, user adoption and renewal of our platform or of any new features or products we develop, the entry of competitive products and services, or the success of existing competitive products and services. As a result, we may not achieve or maintain profitability in future periods. If we fail to grow our revenue sufficiently to keep pace with our investments and other expenses, our results of operations and financial condition would be adversely affected.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly results of operations, including our revenue, gross margin, operating margin, profitability, cash flow from operations, and deferred revenue, may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. For example, while we have been profitable on a GAAP basis in prior fiscal quarters, our quarterly operating results have fluctuated in the past and will fluctuate in the future. Our quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Fluctuation in quarterly results may negatively impact the value of our securities. Factors that may cause fluctuations in our quarterly results of operations include, without limitation, those listed below:

- our ability to retain and upgrade paying users;
- our ability to attract new paying users and convert registered to paying users;
- the timing of expenses and recognition of revenue;

- the amount and timing of operating expenses related to the maintenance and expansion of our business,
- operations, and infrastructure, as well as entry into operating and finance leases;
- the timing of expenses related to acquisitions;
- any large indemnification payments to our users or other third parties;
- changes in our pricing policies or those of our competitors;
- the timing and success of new product feature and service introductions by us or our competitors;
- network outages or actual or perceived security breaches;
- changes in the competitive dynamic of our industry, including consolidation among competitors;
- changes in laws and regulations that impact our business;
- general economic and market conditions;
- catastrophic events, including earthquakes, fires, floods, tsunamis, or other weather events, power loss, telecommunications failures, software or hardware malfunctions, cyber-attack, war, or terrorist attacks, and pandemics such as the ongoing COVID-19 pandemic;
- changes in reserves or other non-cash credits or charges, such as the impairment charges related to certain of our unused office space in connection with our shift to a new Virtual First work model and releases of deferred tax asset valuation allowances; and
- any other impacts of shifting our operations to a new Virtual First work model.

Our results of operations may not immediately reflect downturns or upturns in sales because we recognize revenue from our users over the term of their subscriptions with us.

We recognize revenue from subscriptions to our platform over the terms of these subscriptions. Our subscription arrangements generally have monthly or annual contractual terms, and we also have a small percentage of multi-year contractual terms. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized. As a result, a large portion of our revenue for each quarter reflects deferred revenue from subscriptions entered into during previous quarters, and downturns or upturns in subscription sales, or renewals and potential changes in our pricing policies may not be reflected in our results of operations until later periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as subscription revenue from new users is recognized over the applicable subscription term. By contrast, a significant majority of our costs are expensed as incurred, which occurs as soon as a user starts using our platform. As a result, an increase in users could result in our recognition of more costs than revenue in the earlier portion of the subscription term. We may not attain sufficient revenue to maintain positive cash flow from operations or achieve profitability in any given period.

Our results of operations, which are reported in U.S. dollars, could be adversely affected if currency exchange rates fluctuate substantially in the future.

We conduct our business across 180 countries around the world. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. This exposure is the result of selling in multiple currencies and operating in foreign countries where the functional currency is the local currency. In 2020, 29% of our sales were denominated in currencies other than U.S. dollars. Our expenses, by contrast, are primarily denominated in U.S. dollars. As a result, any increase in the value of the U.S. dollar against these foreign currencies, including those resulting from the impact of the COVID-19 pandemic, could cause our revenue to decline relative to our costs, thereby decreasing our gross margins. Our results of operations are primarily subject to fluctuations in the Euro and British pound sterling. Because we conduct business in currencies other than U.S. dollars, but report our results of operations in U.S. dollars, we also face remeasurement exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results

and earnings and could materially impact our results of operations. We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2020, we had \$697.7 million of federal and \$292.8 million of state net operating loss carryforwards available to reduce future taxable income. Of our federal net operating loss carryforwards, \$71.8 million will begin to expire in 2032 and \$625.9 million will carryforward indefinitely, while state net operating losses begin to expire in 2029. As of December 31, 2020, we also had \$407.6 million of foreign net operating loss carryforwards available to reduce future taxable income, which will carryforward indefinitely. In addition, we had \$22.9 million of foreign acquired net operating losses, which will carryforward indefinitely. We also had \$0.5 million of foreign tax credit carryforwards, which will carryforward indefinitely. It is possible that we will not generate taxable income in time to use these net operating loss carryforwards before their expiration or at all. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules and other limitations may apply under state tax laws. We have determined that we have experienced multiple ownership changes and, as a result, the annual utilization of our net operating loss carryforwards and other pre-change attributes will be subject to limitation. However, we do not expect that the annual limitations will significantly impact our ability to utilize our net operating loss or tax credit carryforwards prior to expiration.

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

We collect sales and value-added tax as part of our subscription agreements in a number of jurisdictions. One or more states or countries may seek to impose incremental or new sales, use, or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes on our services could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage users from purchasing our platform, or otherwise harm our business, results of operations, and financial condition.

Our results of operations and financial condition could be materially affected by the enactment of legislation implementing changes in the U.S. or foreign taxation of international business activities or the adoption of other tax reform policies.

On December 22, 2017, the legislation commonly referred to as the 2017 Tax Reform Act was enacted, which contains significant changes to U.S. tax law, including, but not limited to, a reduction in the corporate tax rate and a transition to a new territorial system of taxation. The primary impact of the new legislation on our provision for income taxes was a reduction of the future tax benefits of our deferred tax assets as a result of the reduction in the corporate tax rate. However, since we have recorded a full valuation allowance against our deferred tax assets, these changes to U.S. tax law do not have a material impact on our provision for income taxes in our consolidated financial statements.

As part of government relief measures related to the COVID-19 pandemic, on March 27, 2020, the 2020 CARES Act was enacted in the United States, and contains several income tax provisions, including, but not limited to, changes to the rules governing net operating losses and technical corrections to certain provisions in the 2017 Tax Reform Act. However, since we have recorded a full valuation allowance against our deferred tax assets, these changes to U.S. tax law do not have a material impact on our provision for income taxes in our consolidated financial statements. In addition, although many countries in which we operate have also issued some form of COVID-19 related income tax guidance, such guidance does not have a material impact on our provision for income taxes in our consolidated financial statements as of December 31, 2020.

On June 29, 2020, California Governor Newsom signed Assembly Bill No. 85 as part of the California 2020 Budget Act which temporarily suspends the use of California net operating losses and imposes a cap on the amount of business incentive tax credits companies can utilize against their net income. This guidance does not have a material impact on our provision for income taxes in our consolidated financial statements as of December 31, 2020.

On June 7, 2019, a judicial panel of the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* that would require related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. On July 22, 2019, the taxpayer requested an en banc rehearing before the full Ninth Circuit Court of Appeals and the request was denied on November 12, 2019. On February 10, 2020, the taxpayer filed a petition for writ of certiorari to the

U.S. Supreme Court, which was denied on June 22, 2020. Accordingly, we have included stock-based compensation in our cost-sharing agreements and as a result, we recognized additional state tax expenses in some jurisdictions which do not have sufficient net operating losses to offset the state income. There was no material impact on our income tax provision for the U.S. and Ireland due to our full valuation allowance.

In 2018, the European Commission (“**EC**”) introduced proposals addressing taxation of digital businesses operating within the European Union (“**EU**”) but has not reached an agreement on a sales tax with a scope limited to digital advertising services. As a result, certain countries, including the UK Italy and France, unilaterally moved to introduce their own digital service tax. In January 2021, the EC released an Inception Impact Assessment to inform stakeholders about proposed legislative changes to the taxation of the digital economy. It is intended that the new initiative will help mitigate potential distortions and fragmentation of tax rules arising in the EU single market by designing a single set of rules which is consistent with the Digital Services Act package and the EC's digital strategy. The Organization for Economic Co-operation and Development Inclusive Framework, together with the EC proposals, will be factored into the final design of the new rules targeting taxation on digital transactions. Due to the increasing focus by government taxing authorities on multinational companies, the tax laws of certain countries in which we do business could change on a prospective or retroactive basis, and any such changes could increase our liabilities for taxes, interest and penalties, lead to higher effective tax rates, and harm our cash flows, results of operations and financial condition.

We have publicly disclosed market opportunity estimates, growth forecasts, and key metrics, including the key metrics included in this Annual Report on Form 10-K which could prove to be inaccurate, and any real or perceived inaccuracies may harm our reputation and negatively affect our business.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts we disclose relating to the size and expected growth of our target market may prove to be inaccurate. Even if the markets in which we compete meet the size estimates and growth we have forecasted, our business could fail to grow at similar rates, if at all. We also rely on assumptions and estimates to calculate certain of our key metrics, such as annual recurring revenue, paying users, average revenue per paying user and free cash flow. We regularly review and may adjust our processes for calculating our key metrics to improve their accuracy. Our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. We have found that aggregate user activity metrics are not leading indicators of revenue or conversion. For that reason, we do not comprehensively track user activity across the Dropbox platform for financial planning and forecasting purposes. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition would be harmed.

Risks Related to Legal and Regulatory Compliance

We are subject to a variety of U.S. and international laws that could subject us to claims, increase the cost of operations, or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws.

We are subject to compliance with various laws, including those covering copyright, indecent content, child protection, consumer protection, and similar matters. There have been instances where improper or illegal content has been stored on our platform without our knowledge. As a service provider, we do not regularly monitor our platform to evaluate the legality of content stored on it. While to date we have not been subject to material legal or administrative actions as result of this content, the laws in this area are currently in a state of flux and vary widely between jurisdictions. Accordingly, it may be possible that in the future we and our competitors may be subject to legal actions, along with the users who uploaded such content. In addition, regardless of any legal liability we may face, our reputation could be harmed should there be an incident generating extensive negative publicity about the content stored on our platform. Such publicity could harm our business and results of operations.

We are also subject to consumer protection laws that may impact our sales and marketing efforts, including laws related to subscriptions, billing, and auto-renewal. These laws, as well as any changes in these laws, could adversely affect our self-serve model and make it more difficult for us to retain and upgrade paying users and attract new ones. Additionally, we have in the past, are currently, and may from time to time in the future become the subject of inquiries and other actions by regulatory authorities as a result of our business practices, including our subscription, billing, and auto-renewal policies. Consumer protection laws may be interpreted or applied by regulatory authorities in a manner that could require us to make changes to our operations or incur fines, penalties or settlement expenses, which may result in harm to our business, results of operations, and brand.

Our platform depends on the ability of our users to access the internet and our platform has been blocked or restricted in some countries for various reasons. For example, our platform is blocked in the People's Republic of China. If we fail to anticipate developments in the law, or fail for any reason to comply with relevant law, our platform could be further blocked or restricted and we could be exposed to significant liability that could harm our business.

We are also subject to various U.S. and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and Irish Criminal Justice (Corruption Offences) Act 2018, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering, or providing improper payments or benefits to officials and other recipients for improper purposes. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as we continue to expand our international presence and any failure to comply with such laws could harm our reputation and our business.

We are subject to export and import control laws and regulations that could impair our ability to compete in international markets or subject us to liability if we violate such laws and regulations.

We are subject to U.S. export controls and sanctions regulations that prohibit the shipment or provision of certain products and services to certain countries, governments, and persons targeted by U.S. sanctions. While we take precautions to prevent our products and services from being exported in violation of these laws, including implementing IP address blocking, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. For example, in 2011, we provided certain downloadable portions of our software to international users that, prior to export, required either a one-time product review or application for an encryption registration number in lieu of such product review. These exports were likely made in violation of U.S. export control and sanction laws. In March 2011, we filed a Final Voluntary Self Disclosure with the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, concerning these potential violations. In June 2011, BIS notified us that it had completed its review of these matters and closed its review with the issuance of a Warning Letter. No monetary penalties were assessed against us by BIS with respect to the 2011 filing. In addition, in 2017, we discovered that our platform has been accessed by certain users in apparent violation of United States sanctions regulations. We filed an Initial Voluntary Self Disclosure in October 2017 with the Office of Foreign Assets Control, or OFAC, and a Final Voluntary Self Disclosure with OFAC in February 2018. In October 2018, OFAC notified us that it had completed its review of these matters and closed its review with the issuance of a Cautionary Letter. No monetary penalties were assessed with respect to the 2018 filing. If in the future we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us.

In addition, various countries regulate the import and export of certain encryption and other technology, including import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our users' ability to access our platform in those countries. Changes in our platform or client-side software, or future changes in export and import regulations may prevent our users with international operations from deploying our platform globally or, in some cases, prevent the export or import of our platform to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell subscriptions to our platform to, existing or potential users with international operations. Any decreased use of our platform or limitation on our ability to export or sell our products would likely adversely affect our business, results of operations, and financial results.

Our actual or perceived failure to comply with privacy, data protection, and information security laws, regulations, and obligations could harm our business.

We receive, store, process, and use personal information and other user content. There are numerous federal, state, local, and international laws and regulations regarding privacy, data protection, information security, and the storing, sharing, use, processing, transfer, disclosure, and protection of personal information and other content, the scope of which are changing, subject to differing interpretations, and may be inconsistent among countries, or conflict with other rules. We also post privacy policies and are subject to contractual obligations to third parties related to privacy, data protection, and information security. We strive to comply with applicable laws, regulations, policies, and other legal obligations relating to privacy, data protection, and information security to the extent possible. However, the regulatory framework for privacy and data protection worldwide is, and is likely to remain, uncertain for the foreseeable future, and it is possible that these or other actual or alleged obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices.

We also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, data protection, and information security proposed and enacted in various jurisdictions. For example, in May 2018, the General Data Protection Regulation, or GDPR, went into effect in the EU. The GDPR imposed more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws. Further, following a referendum in June 2016 in which voters in the United Kingdom approved an exit from the EU, the United Kingdom government has initiated a process to leave the EU ("Brexit"). The United Kingdom withdrew from the EU pursuant to Brexit on January 31, 2020, subject to a transition period that ended on December 31, 2020. Brexit has created uncertainty with regard to the regulation of data protection in the United Kingdom. In particular, although the United Kingdom has enacted a Data Protection Act designed to be consistent with the GDPR, it remains unclear how data transfers to and from the United Kingdom will be regulated. Additionally, although we have self-certified under the U.S.-EU and U.S.-Swiss Privacy Shield Frameworks with regard to our transfer of certain personal data from the European Economic Area ("EEA") and Switzerland to the United States, on July 16, 2020, the Court of Justice of the European Union invalidated Decision 2016/1250 on the adequacy of the protection provided by the U.S.-EU Privacy Shield Framework, and the Swiss Federal Data Protection and Information Commissioner has stated that it no longer considers the U.S.-Swiss Privacy Shield adequate for the purposes of transfers of personal data from Switzerland to the U.S. While we rely on additional legal mechanisms to transfer data from the EEA and Switzerland to the United States, there is some regulatory uncertainty surrounding the future of data transfers from these locations to the United States, and we are closely monitoring regulatory developments in this area. The California Consumer Privacy Act of 2018 (the "CCPA"), which affords consumers expanded privacy protections, went into effect on January 1, 2020. However, certain aspects of the CCPA and its enforcement remain uncertain. Additionally, a new privacy law, the California Privacy Rights Act ("CPRA"), which will go into effect on January 1, 2023, significantly modified the CCPA, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses. The effects of the CCPA and the CPRA remain far-reaching, and depending on final regulatory guidance and other related developments, potentially may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Similarly, a number of legislative proposals in the European Union, the United States, at both the federal and state level, as well as other jurisdictions could impose new obligations in areas affecting our business. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data, or similar requirements, that could increase the cost and complexity of delivering our services.

With laws and regulations such as the GDPR in the EU and the California Consumer Privacy Act in the U.S. imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or any of our other legal obligations relating to privacy, data protection, or information security may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others, and could result in significant liability or cause our users to lose trust in us, which could have an adverse effect on our reputation and business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our services.

Additionally, if third parties we work with, such as vendors or developers, violate applicable laws or regulations or our policies, such violations may also put our users' content at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, or disclosure of our users' content, or regarding the manner in which the express or implied consent of users for the collection, use, retention, or disclosure of such content is obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete, and may limit our ability to store and process user data or develop new services and features.

Our business could be adversely impacted by changes in internet access for our users or laws specifically governing the internet.

Our platform depends on the quality of our users' access to the internet. Certain features of our platform require significant bandwidth and fidelity to work effectively. Internet access is frequently provided by companies that have significant market power that could take actions that degrade, disrupt or increase the cost of user access to our platform, which would negatively impact our business. We could incur greater operating expenses and our user acquisition and retention could be negatively impacted if network operators:

- implement usage-based pricing;

- discount pricing for competitive products;
- otherwise materially change their pricing rates or schemes;
- charge us to deliver our traffic at certain levels or at all;
- throttle traffic based on its source or type;
- implement bandwidth caps or other usage restrictions; or
- otherwise try to monetize or control access to their networks

On June 11, 2018, the repeal of the Federal Communications Commission's, or FCC, "net neutrality" rules took effect and returned to a "light-touch" regulatory framework. The prior rules were designed to ensure that all online content is treated the same by internet service providers and other companies that provide broadband services. Additionally, California and a number of other states are considering or have enacted legislation or executive actions that would regulate the conduct of broadband providers. We cannot predict whether the FCC order or state initiatives will be modified, overturned, or vacated by legal action of the court, federal legislation, or the FCC. With the repeal of net neutrality rules in effect, we could incur greater operating expenses, which could harm our results of operations. As the internet continues to experience growth in the number of users, frequency of use, and amount of data transmitted, the internet infrastructure that we and our users rely on may be unable to support the demands placed upon it. The failure of the internet infrastructure that we or our users rely on, even for a short period of time, could undermine our operations and harm our results of operations.

In addition, there are various laws and regulations that could impede the growth of the internet or other online services, and new laws and regulations may be adopted in the future. These laws and regulations could, in addition to limiting internet neutrality, involve taxation, tariffs, privacy, data protection, content, copyrights, distribution, electronic contracts and other communications, consumer protection, and the characteristics and quality of services, any of which could decrease the demand for, or the usage of, our platform. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could materially harm our business, results of operations, and financial condition.

We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters and, if resolved adversely, they could have a significant impact on our business, results of operations, or financial condition.

We own a large number of patents, copyrights, trademarks, domain names, and trade secrets and, from time to time, are subject to litigation based on allegations of infringement, misappropriation or other violations of intellectual property, or other rights. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims, commercial claims, and other assertions against us grows. We have in the past been, are currently, and may from time to time in the future become, a party to litigation and disputes related to our intellectual property, our business practices, transactions involving our securities and our platform. For example, we were recently subject to a number of putative class action lawsuits in state and federal court alleging federal securities law violations in connection with our IPO. Although the lawsuits in both the federal and state courts have since been dismissed, we may not be successful in an appeal proceeding or in winning dismissal of an amended complaint. The costs of supporting litigation and dispute resolution proceedings are considerable, and there can be no assurances that a favorable outcome will be obtained. Our business, results of operations, and financial condition could be materially and adversely affected by such costs and any unfavorable outcomes in current or future litigation. We may need to settle litigation and disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of any settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. With respect to any intellectual property rights claim, we may have to seek a license to continue practices found to be in violation of third-party rights, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all, and we may be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative, non-infringing technology or practices could require significant effort and expense.

Our failure to protect our intellectual property rights and proprietary information could diminish our brand and other intangible assets.

We rely and expect to continue to rely on a combination of patents, patent licenses, trade secrets, domain name protections, trademarks, and copyright laws, as well as confidentiality and license agreements with our employees, consultants, and third parties, to protect our intellectual property and proprietary rights. In the United States and abroad, we have over 1,200 issued patents and more than 450 pending patent applications. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge our proprietary rights, pending and future patent, trademark, and copyright applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. We have also devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, consultants, and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our platform, brand, and other intangible assets may be diminished and competitors may be able to more effectively replicate our platform and its features. Any of these events could materially and adversely affect our business, results of operations, and financial condition.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment.

The trading price of our Class A common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. Factors that could cause fluctuations in the trading price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products, features, or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated changes in our key metrics;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- actual or perceived breaches of, or failures related to, privacy, data protection or data security;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;

- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses, products, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets and catastrophic events, including earthquakes, fires, floods, tsunamis, or other weather events, power loss, telecommunications failures, software or hardware malfunctions, cyber-attack, war, or terrorist attacks, and pandemics such as the ongoing COVID-19 pandemic.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. For example, we were recently subject to a number of putative class action lawsuits in state and federal court alleging federal securities law violations in connection with our IPO. Although the lawsuits in both the federal and state courts have since been dismissed, we may not be successful in an appeal proceeding or in winning dismissal of an amended complaint. This recent litigation, and any securities litigation that may be instituted against us in the future, could result in substantial costs and a diversion of our management's attention and resources.

The multi-class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our IPO, and it may depress the trading price of our Class A common stock.

Our Class A common stock has one vote per share, our Class B common stock has ten votes per share, and our Class C common stock has no voting rights, except as otherwise required by law. As of December 31, 2020, our directors, executive officers and holders of more than 5% of our common stock, and their respective affiliates, held in the aggregate 74.3% of the voting power of our capital stock, with Mr. Houston holding approximately 70.6% of the voting power of our capital stock. We are including Mr. Houston's Co-Founder Grant in this calculation since the shares underlying such grant are legally issued and outstanding shares of our Class A common stock and Mr. Houston is able to vote these shares prior to their vesting. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit or preclude other stockholders' ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that other stockholders may feel are in their best interests as one of our stockholders.

Future transfers or sales by holders of Class B common stock will generally result in those shares converting to Class A common stock, except for certain transfers described in our amended and restated certificate of incorporation, including transfers effected for estate planning purposes where sole dispositive power and exclusive voting control with respect to the shares of Class B common stock is retained by the transferring holder and transfers between our co-founders. In addition, each outstanding share of Class B common stock held by a stockholder who is a natural person, or held by the permitted entities or permitted transferees of such stockholder (as described in our amended and restated certificate of incorporation), will convert automatically into one share of Class A common stock upon the death of such natural person. In the event of Mr. Houston's death or permanent and total disability, shares of Class B common stock held by Mr. Houston, his permitted entities or permitted transferees will convert to Class A common stock, provided that the conversion will be deferred for nine months, or up to 18 months if approved by a majority of our independent directors, following his death or permanent and total disability. Transfers between our co-founders are permitted transfers and will not result in conversion of the shares of Class B common stock that are transferred; however, upon the death or total and permanent disability of the transferring co-founder, the transferred shares would convert to Class A common stock following the deferral period of nine months, or up to 18 months if approved by a majority of our independent directors. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those individual holders of Class B common stock who retain their shares in the long term.

In addition, because our Class C common stock carries no voting rights (except as otherwise required by law), if we issue Class C common stock in the future, the holders of Class B common stock may be able to elect all of our directors and to determine the outcome of most matters submitted to a vote of our stockholders for a longer period of time than would be the case if we issued Class A common stock rather than Class C common stock in such transactions.

Additionally, in July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Although we have since met the requirements to be included, and are now included, in an FTSE Russell index, our multi-class capital structure still makes us ineligible for inclusion in any of the above listed S&P indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these S&P indices will not be investing in our stock. It is as of yet unclear what effect, if any, these policies will have on the valuations of publicly traded companies excluded from one or more of these indices, but it is possible that they may depress these valuations compared to those of other similar companies that are included.

Substantial future sales could depress the market price of our Class A common stock.

The market price of our Class A common stock could decline as a result of a large number of sales of shares of such stock, and the perception that these sales could occur may also depress the market price of our Class A common stock.

In addition, we have filed registration statements to register shares reserved for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods, the shares issued upon exercise of outstanding stock options or upon settlement of outstanding RSU awards are available for immediate resale in the United States in the open market.

Sales of our shares may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading price of our Class A common stock to fall and make it more difficult for you to sell shares of our Class A common stock.

Delaware law and provisions in our restated certificate of incorporation and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the market price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class;
- our multi-class common stock structure, which provides our holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A common stock, Class B common stock, and Class C common stock;
- when the outstanding shares of Class B common stock represent less than a majority of the total combined voting power of our Class A and Class B common stock, or the Voting Threshold Date, our Board of Directors will be classified into three classes of directors with staggered three-year terms, and directors will only be able to be removed from office for cause;
- until the Class B common stock, as a class, converts to Class A common stock, any amendments to our restated certificate of incorporation will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A common stock and Class B common stock; and following the conversion of our Class B common stock, as a class, to Class A common stock, certain amendments to our amended and restated certificate of incorporation will require the approval of two-thirds of our then outstanding voting power;

- our amended and restated bylaws will provide that approval of stockholders holding two-thirds of our outstanding voting power voting as a single class is required for stockholders to amend or adopt any provision of our bylaws;
- after the Voting Threshold Date our stockholders will only be able to take action at a meeting of stockholders, and will not be able to take action by written consent for any matter;
- until the Voting Threshold Date, our stockholders will be able to act by written consent only if the action is first recommended or approved by the Board of Directors;
- vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only the chairman of our Board of Directors, our chief executive officer, a majority of our Board of Directors or until the Class B common stock, as a class, converts to Class A common stock, a stockholder holding thirty percent of the combined voting power of our Class A and Class B common stock are authorized to call a special meeting of stockholders;
- certain litigation against us may be required to be brought in Delaware;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of Class A common stock; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These anti-takeover defenses could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders, and also provide that the federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, each of which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (3) any action arising pursuant to any provision of the Delaware General Corporation Law, or the certificate of incorporation or the amended and restated bylaws or (4) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants.

Our amended and restated bylaws also provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or a Federal Forum Provision.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

If we face relevant litigation and are unable to enforce these provisions, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value

In February 2020, our Board of Directors approved a stock repurchase program for the repurchase of up to \$600 million of the outstanding shares of our Class A common stock and in February 2021 our Board of Directors authorized the repurchase of up to an additional \$1 billion of the outstanding shares of our Class A common stock. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Share repurchases will be made from time to time in private transactions or open market purchases, as permitted by securities laws and other legal requirements. Although we have announced an intention to increase the pace of our share repurchases, any share repurchases remain subject to the circumstances in place at that time, including prevailing market prices. As a result, there can be no guarantee around the timing of our share repurchases, or that the volume of such repurchases will increase. The stock repurchase program could affect the price of our Class A common stock, increase volatility and diminish our cash reserves. Our repurchase program may be suspended or terminated at any time and, even if fully implemented, may not enhance long-term stockholder value.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business and fund our stock repurchase program, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, stockholders must rely on sales of their Class A common stock after price appreciation as the only way to realize any future gains on their investment. In addition, our revolving credit facility contains restrictions on our ability to pay dividends.

General Risk Factors

Our business could be disrupted by catastrophic events.

Occurrence of any catastrophic event, including earthquake, fire, flood, tsunami, or other weather event, power loss, telecommunications failure, software or hardware malfunctions, cyber-attack, war, or terrorist attack, could result in lengthy interruptions in our service. Further, outbreaks of pandemic diseases, such as COVID-19, or the fear of such events, have resulted in responses, including government-imposed travel restrictions, grounding of flights, and shutdown of workplaces. As a result, we are conducting business with substantial modifications, including modifications to employee travel and employee work locations. These modifications may disrupt important business operations, such as our product development and sales and marketing activities, and the productivity of our employees.

Additionally, our U.S. headquarters and some of the datacenters we utilize are located in the San Francisco Bay Area, a region known for seismic activity, and our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, acts of terrorism could cause disruptions to the internet or the economy as a whole. Even with our disaster recovery arrangements, our service could be interrupted. If our systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver products to our users would be impaired or we could lose critical data. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster, and successfully execute on those plans in the event of a disaster or emergency, our business, results of operations, financial condition, and reputation would be harmed.

We may have exposure to greater than anticipated tax liabilities, which could adversely impact our results of operations.

While to date we have not incurred significant income taxes in operating our business, we are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits of stock-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes and effects from acquisitions.

Our tax provision could also be impacted by changes in accounting principles, changes in U.S. federal, state, or international tax laws applicable to corporate multinationals such as the recent legislation enacted in the United States, other fundamental law changes currently being considered by many countries, and changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions. Additionally, the Organization for Economic Co-Operation and Development

has released guidance covering various topics, including digital economy, transfer pricing, country-by-country reporting, and definitional changes to permanent establishment that could ultimately impact our tax liabilities.

We are subject to review and audit by U.S. federal, state, local, and foreign tax authorities. Such tax authorities may disagree with tax positions we take and if any such tax authority were to successfully challenge any such position, our financial results and operations could be materially and adversely affected. We may also be subject to additional tax liabilities due to changes in non-income based taxes resulting from changes in federal, state, or international tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to the business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the Nasdaq Global Select Market, or Nasdaq. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are also required to provide an annual management report on the effectiveness of our disclosure controls and procedures over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight. In addition, our independent registered public accounting firm is required to audit the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act annually. Testing, or the subsequent testing by our independent registered public accounting firm, may reveal material weaknesses or significant deficiencies. If material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated, we could receive an adverse opinion regarding our internal control over financial reporting from our independent registered public accounting firm, we could be subject to investigations or sanctions by regulatory authorities and we could incur substantial expenses.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Additionally, to the extent we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may uncover new deficiencies. Weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement that could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required to be included in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on Nasdaq.

Our reported results of operations may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported results of operations, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. It is difficult to

predict the impact of future changes to accounting principles or our accounting policies, any of which could negatively affect our results of operations.

We may need additional capital, and we cannot be certain that additional financing will be available on favorable terms, or at all.

Historically, we have funded our operations and capital expenditures primarily through equity issuances, cash generated from our operations, and debt financing for capital purchases. Although we currently anticipate that our existing cash, cash equivalents and short-term investments, amounts available under our existing credit facilities, and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance, and condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity or equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and our stockholders may experience dilution.

Our Class A common stock market price and trading volume could decline if securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If few securities analysts commence coverage of us, or if one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our Class A common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in San Francisco, California, pursuant to operating leases that expire in 2033. We lease additional offices in San Francisco and around the world, including in Austin, Texas; Mountain View, California; Seattle, Washington; Dublin, Ireland; and Sydney, Australia. We have datacenter co-location facilities in California, Oregon, Texas, and Virginia. We believe that these facilities are generally suitable to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and government investigations in the ordinary course of business, including legal proceedings with third parties asserting infringement of their intellectual property rights. We do not believe that any current pending matter is likely to have a material adverse impact on our consolidated results of operations, cash flows, or our financial position. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could materially and adversely impact our business, results of operations, financial condition, and prospects.

For example, in April 2015, Synchronoss Technologies, Inc., ("Synchronoss"), a public company that provides cloud-based products, filed a patent infringement lawsuit against us in the United States District Court for the District of New Jersey, claiming three counts of patent infringement and seeking injunctive relief. The case was subsequently transferred to the United States District Court for the Northern District of California, and at summary judgment, the court resolved all claims in our favor. Synchronoss appealed this order. On February 12, 2021, the U.S. Court of Appeals for the Federal Circuit affirmed the judgment in our favor.

In addition, four putative class action lawsuits alleging violations of the federal securities laws were filed on August 30, 2019, September 5, 2019, September 13, 2019, and October 3, 2019, in the Superior Court of the State of California, San Mateo County, against us, certain of our officers and directors, underwriters of our IPO, and Sequoia Capital XII, L.P. and certain of its affiliated entities (collectively, the "Dropbox Defendants"). On October 4, 2019, two putative class action lawsuits alleging violations of the federal securities laws were filed against the Dropbox Defendants in the U.S. District Court for the Northern District of California ("Federal Plaintiffs"). The six lawsuits each made the same or similar allegations of violations of federal securities laws, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement. The plaintiffs sought unspecified monetary damages and other relief.

On March 2, 2020, the Federal Plaintiffs filed a consolidated class action complaint. On April 16, 2020, the Dropbox Defendants filed a motion to dismiss the federal consolidated class action complaint. On October 21, 2020, the federal court issued an order granting our motion to dismiss the Federal Plaintiffs' complaint with leave to amend setting a deadline of January 6, 2021 for the Federal Plaintiffs to file any amended complaint. The federal court extended this deadline to February 22, 2021 to provide time for the parties to explore resolving the case. On February 11, 2021, the parties attended mediation and reached a settlement in principle for an immaterial amount subject to final documentation and preliminary and final approval by the court.

On May 11, 2020, the Dropbox Defendants filed a motion to dismiss the consolidated state court case based on the exclusive federal forum provisions contained in our amended and restated bylaws. On December 4, 2020, the state court issued an order granting our motion to dismiss the consolidated state court case. On December 15, 2020, the State Plaintiffs filed a notice of appeal of this order. We believe the appeal and claims are without merit and we intend to vigorously defend against them.

Future litigation may be necessary, among other things, to defend ourselves or our users by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Class A Common Stock

Our Class A common stock is listed on the Nasdaq Global Market under the symbol "DBX" since March 23, 2018.

Holders of Record

As of February 16, 2021, we had 521 holders of record of our Class A and Class B common stock, respectively, and no holders of our Class C common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our Board of Directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our Board of Directors may deem relevant. In addition, the terms of our revolving credit facility place certain limitations on the amount of cash dividends we can pay, even if no amounts are currently outstanding.

Issuer Purchases of Equity Securities

The following table presents information with respect to Dropbox's repurchases of Class A common stock during the quarter ended December 31, 2020.

Period	Total Number of Shares Purchased (in millions) ⁽¹⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Programs (in millions) ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs (in millions) ⁽¹⁾
October 1 - 31	0.66	\$ 19.59	0.66	\$ 409.70
November 1 - 30	5.87 ⁽³⁾	\$ 18.78	5.61	\$ 304.38
December 1 - 31	4.72	\$ 21.62	4.72	\$ 202.38
Total	11.25	\$ 20.02	10.99	

⁽¹⁾ On February 20, 2020, we announced that our Board of Directors approved a stock repurchase program for the repurchase of up to \$600 million of the Company's outstanding shares of Class A common stock. On February 18, 2021, we announced that our Board of Directors authorized the repurchase of an additional \$1 billion of the outstanding shares of our Class A common stock. Under this program, shares may be repurchased, subject to general business and market conditions and other investment opportunities, through open market purchases or privately held negotiated transactions, including through Rule 10b5-1 plans, in each case as permitted by securities laws and other legal requirements. The repurchase program does not have an expiration date. See Note 12 "Stockholders' Equity" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information related to share repurchases.

⁽²⁾ Average price paid per share includes costs associated with the repurchases.

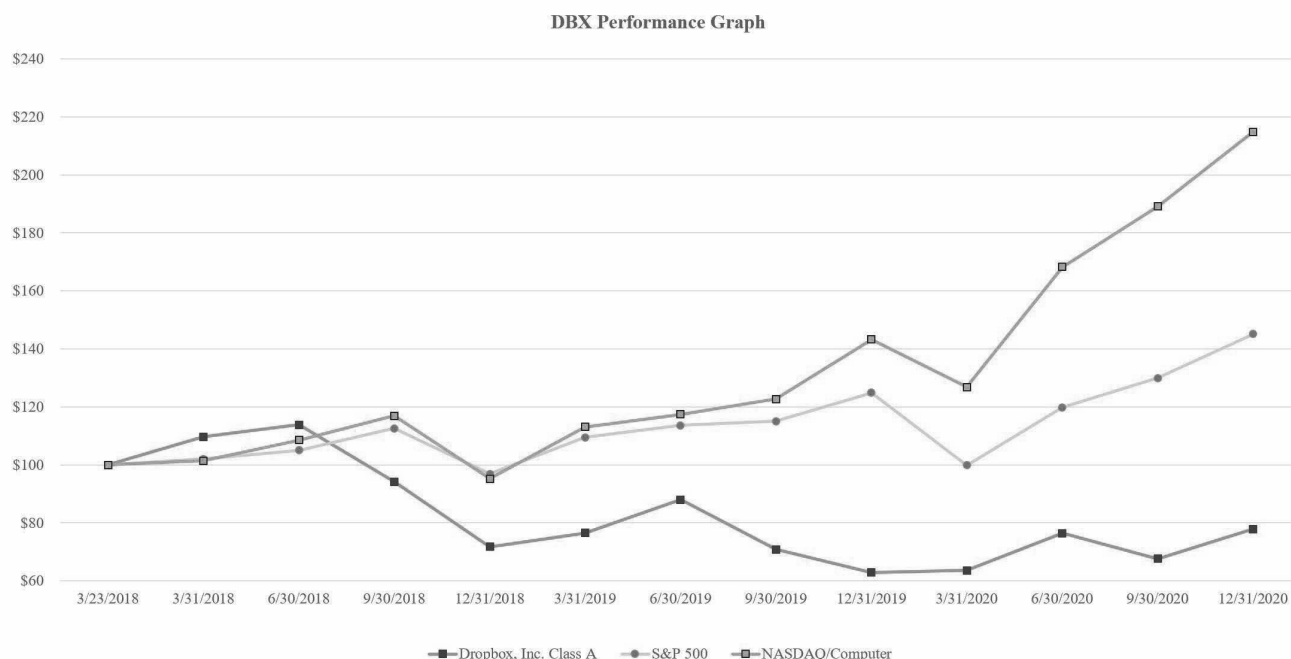
⁽³⁾ Includes 261,143 shares of restricted common stock delivered by certain employees upon vesting of restricted stock awards to satisfy tax withholding requirements.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, or the SEC, for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act,

or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Act.

The following graph compares (i) the cumulative total stockholder return on our Class A common stock from March 23, 2018 (the date our Class A common stock commenced trading on the NASDAQ Global Select Market) through December 31, 2020 with (ii) the cumulative total return of the Standard & Poor's 500 Index and the NASDAQ Computer Index over the same period, assuming the investment of \$100 in our common stock and in both of the other indices on March 23, 2018 and the reinvestment of dividends. The graph uses the closing market price on March 23, 2018 of \$28.48 per share as the initial value of our common stock. As discussed above, we have never declared or paid a cash dividend on our common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.



*Returns are based on historical results and are not necessarily indicative of future performance. See the disclosure in Part I, Item 1A, “Risk Factors.”

Unregistered Sales of Equity Securities

None.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for each of the years ended December 31, 2020, 2019, and 2018 and the consolidated balance sheet data as of December 31, 2020, and 2019, are derived from our audited consolidated financial statements that are included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the year ended December 31, 2018 and the consolidated balance sheet data as of December 31, 2018 are derived from our audited consolidated financial statements, except as otherwise noted, that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our future results. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and related

notes thereto included elsewhere in this Annual Report on Form 10-K and are qualified in their entirety by the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

Consolidated Statements of Operations Data

	Year ended December 31,		
	2020	2019	2018
	<i>(In millions except for per share amounts)</i>		
Revenue	\$ 1,913.9	\$ 1,661.3	\$ 1,391.7
Cost of revenue ⁽¹⁾	414.6	411.0	394.7
Gross profit	1,499.3	1,250.3	997.0
Operating expenses ⁽¹⁾ :			
Research and development	727.5	662.1	768.2
Sales and marketing	422.8	423.3	439.6
General and administrative	227.8	245.4	283.2
Impairment related to real estate assets ⁽²⁾	398.2	—	—
Total operating expenses	1,776.3	1,330.8	1,491.0
Loss from operations	(277.0)	(80.5)	(494.0)
Interest income, net	1.7	12.5	7.1
Other income, net	25.1	16.0	6.8
Loss before income taxes	(250.2)	(52.0)	(480.1)
Benefit from (provision for) income taxes	(6.1)	(0.7)	(4.8)
Net loss	<u>\$ (256.3)</u>	<u>\$ (52.7)</u>	<u>\$ (484.9)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.62)</u>	<u>\$ (0.13)</u>	<u>\$ (1.35)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	414.3	411.6	358.6

⁽¹⁾ Includes stock-based compensation as follows:

	Year ended December 31,		
	2020	2019	2018
	<i>(In millions)</i>		
Cost of revenue	\$ 17.1	\$ 15.8	\$ 47.0
Research and development	174.1	147.6	368.2
Sales and marketing	33.7	31.4	94.3
General and administrative ⁽³⁾⁽⁴⁾	36.6	66.4	140.6

⁽²⁾ Includes impairment charges related to certain right-of-use and other lease related assets as a result of our decision to shift to a Virtual First work model. See Note 9 "Leases" of the Notes to the Consolidated Financial Statements for further information.

⁽³⁾ On March 19, 2020, one of the Company's co-founders resigned as a member of the board and as an officer of the Company, resulting in the reversal of \$23.8 million in stock-based compensation expense. Of the total amount reversed, \$21.5 million related to expense recognized prior to December 31, 2019. See Note 12 "Stockholders' Equity" of the Notes to the Consolidated Financial Statements for further information.

⁽⁴⁾ During the year ended December 31, 2018, the Company recognized the cumulative unrecognized stock-based compensation of \$418.7 million related to the two-tier restricted stock units upon the effectiveness of the Company's registration statement for its initial public offering. See Note 1 "Description of the Business and Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements for further details.

Consolidated Balance Sheet Data

	As of December 31,		
	2020	2019	2018
	<i>(In millions)</i>		
Cash, cash equivalents, and short-term investments	\$ 1,121.3	\$ 1,159.0	\$ 1,089.3
Working capital	139.7	228.4	372.7
Property and equipment, net	338.7	445.3	310.6
Total assets	2,387.2	2,699.2	1,694.1
Deferred revenue, current and non-current	614.2	559.1	485.6
Operating lease liability, current and non current ⁽¹⁾	848.3	791.8	—
Finance lease liability, current and non current	271.2	214.9	163.7
Total stockholders' equity	333.8	808.4	676.8

⁽¹⁾ Includes the impact of the Company's adoption of ASU No. 2016-02, Leases (*Topic 842*) on January 1, 2019.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section titled "Selected Consolidated Financial and Other Data" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included elsewhere in this Annual Report on Form 10-K. For a comparison of our results of operations for the fiscal years ended December 31, 2019 and 2018 see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 21, 2020.

Overview

Our modern economy runs on knowledge. Today, knowledge lives in the cloud as digital content, and Dropbox is where businesses and individuals can create, access, and share this content globally. We serve more than 700 million registered users across 180 countries.

Since our founding in 2007, our market opportunity has grown as we've expanded from keeping files in sync to keeping teams in sync. In a world where using technology at work can be fragmented and distracting, Dropbox makes it easy to focus on the work that matters.

By solving these universal problems, we've become invaluable to our users. The popularity of our platform drives viral growth, which has allowed us to scale rapidly and efficiently. We've built a thriving global business with 15.48 million paying users.

Our Subscription Plans

We generate revenue from individuals, families, teams, and organizations by selling subscriptions to our platform, which serve the varying needs of our diverse customer base. Subscribers can purchase individual licenses through our Plus and Professional plans, or purchase multiple licenses through our Family plan or our Standard, Advanced, and Enterprise team plans. Each team or family represents a separately billed deployment that is managed through a single administrative dashboard. Teams must have a minimum of three users, but can also have more than tens of thousands of users. Families can have up to six users. Customers can choose between an annual or monthly plan, with a small number of large organizations on multi-year plans. A majority of our customers opt for our annual plans, although we have seen and may continue to see an increase in customers opting for our monthly plans. We typically bill our customers at the beginning of their respective terms and recognize revenue ratably over the term of the subscription period. International customers can pay in U.S. dollars or a select number of foreign currencies.

Our premium subscription plans, such as Professional and Advanced, provide more functionality than other subscription plans and have higher per user prices. Our Standard and Advanced subscription plans offer robust capabilities for businesses, and the vast majority of Dropbox Business teams purchase our Standard or Advanced subscription plans. While our Enterprise subscription plan offers more opportunities for customization, companies can subscribe to any of these team plans for their business needs.

In 2019, we acquired HelloSign, an e-signature and document workflow platform. The acquisition of HelloSign expanded our content collaboration capabilities to include additional business-critical workflows. HelloSign has several product lines, and the pricing and revenue generated from each product line varies, with some product lines priced based on the number of licenses purchased (similar to Dropbox plans), while others are priced based on a customer's transaction volume. Depending on the product purchased, teams must have a minimum of a certain number of licenses, but can also have hundreds of users. Customers can choose between an annual or monthly plan, with a small number of large organizations on multi-year plans. We typically bill HelloSign customers at the beginning of their respective terms and recognizes revenue ratably over the subscription period. We sell HelloSign products globally and sell primarily in U.S. dollars.

Our Customers

Our customer base is highly diversified, and in the period presented, no customer accounted for more than 1% of our revenue. Our customers include individuals, families, teams, and organizations of all sizes, from freelancers and small businesses to Fortune 100 companies. They work across a wide range of industries, including professional services, technology, media, education, industrials, consumer and retail, and financial services. Within companies, our platform is used by all types of teams and functions, including sales, marketing, product, design, engineering, finance, legal, and human resources.

Our Business Model

Drive new signups

We acquire users efficiently and at relatively low costs through word-of-mouth referrals, direct in-product referrals, and sharing of content. Anyone can create a Dropbox account for free through our website or app and be up and running in minutes. These users often share and collaborate with other non-registered users, attracting new signups into our network.

Increase conversion of registered users to our paid subscription plans

We generate over 90% of our revenue from self-serve channels—users who purchase a subscription through our app or website. To grow our recurring revenue base, we actively encourage our registered users to convert to one of our paid plans based on the functionality that best suits their needs. We do this via in-product prompts and notifications, time-limited free trials of paid subscription plans, email campaigns, and lifecycle marketing. Together, these enable us to generate increased recurring revenues from our existing user base.

Upgrade and expand existing customers

We offer a range of paid subscription plans, from Plus, Professional, and Family for individuals, to Standard, Advanced, and Enterprise for teams. We analyze usage patterns within our network and run hundreds of targeted marketing campaigns to encourage paying users to upgrade their plans. We prompt individual subscribers who collaborate with others on Dropbox to purchase our Standard or Advanced plans for a better team experience, and we also encourage existing Dropbox Business teams to purchase additional licenses or to upgrade to premium subscription plans.

COVID-19 Update

Although we have seen and may continue to see an impact to our financial condition or results of operations, as described below, the full extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the pace of reopening, impact on our customers and our sales cycles, impact on our business operations, impact on our customer, employee or industry events, and effect on our vendors, all of which are uncertain and cannot be predicted. The extent to which the COVID-19 pandemic may impact our business, financial condition or results of operations is uncertain, but may include, without limitation, impacts to our current and prospective users' ability to purchase or renew paid licenses for access to our platform, impacts to our paying user growth as well as disruptions to our business operations as a result of travel restrictions, shutdown of workplaces and potential impacts to our vendors.

Additionally, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates relative to U.S. dollars, our reporting currency, as well as changes in interest rates. Volatile market conditions arising from the COVID-19 pandemic have and may continue to negatively impact our results of operations and cash flows, due to (i) a weakening of foreign currencies relative to the U.S. dollar, which have and may in the future cause our revenues to decline relative to our costs, and (ii) government-initiated reductions in interest rates, which may reduce our interest income. In certain cases, we have provided relief to our customers in the form of extending net payment terms and changing invoice frequency, which may negatively impact our accounts receivable. Conversely, we have seen and may continue to see cost savings from the shift to remote work for all of our employees in areas including events, travel, utilities, and other benefits. Due to our subscription based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods, if at all.

Virtual First

Furthermore, the effects of the COVID-19 pandemic have led us to reimagine the way we work, resulting in our announcement in October 2020 to shift to a new Virtual First work model pursuant to which remote work will become the primary experience for all of our employees. As a result, we intend for our workforce to become more distributed over time, although we will continue to offer our employees opportunities for in-person collaboration in all locations we currently have offices, either through our existing real-estate, or new on-demand, flexible spaces, which will be known as "Dropbox Studios". Consistent with this strategy, we will retain a portion of our office space and a portion will be marketed for sublease. We engaged a third party to estimate the fair value of the office space to be subleased based on current market conditions. Where the carrying value of the individual asset groups exceeded the fair value, an impairment charge was recognized for the difference. We recorded a corresponding impairment charge of \$398.2 million in the period ended December 31, 2020. See Note 9 "Leases" for additional information. We continue to expect to incur additional charges related to certain European leases

over the next twelve months, which could range between \$0 and \$50 million depending on the then current market and economic conditions.

While we seek to manage the implementation of this new work model carefully and we believe this model will help us reap the benefits of remote work, while maintaining a meaningful in-person experience, there is no guarantee that we will realize any anticipated benefits to our business, including any cost savings, operational efficiencies, increased employee satisfaction or increased productivity. In addition, given that we have a limited history of operating with a Virtual First workforce, the long-term impact on our financial results and business operations is uncertain. Please see Item 1A. “Risk Factors” in this Annual Report on Form 10-K for a complete description of the material risks we currently face, including risks related to the COVID-19 pandemic and our shift to a Virtual First work model.

Reduction in Force

On January 13, 2021, we announced a reduction of our global workforce by approximately 11% to streamline our team structure in support of our business priorities.

Key Business Metrics

We review a number of operating and financial metrics, including the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

Total annual recurring revenue

We primarily focus on total annual recurring revenue (“Total ARR”) as the key indicator of the trajectory of our business performance. Total ARR represents the amount of revenue that we expect to recur annually, enables measurement of the progress of our business initiatives, and serves as an indicator of future growth. In addition, Total ARR is less subject to variations in short-term trends that may not appropriately reflect the health of our business. Total ARR is a performance metric and should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items.

Total ARR consists of contributions from all of our revenue streams, including subscriptions and add-ons. We calculate Total ARR as the number of users who have active paid licenses for access to our platform as of the end of the period, multiplied by their annualized subscription price to our platform. We adjust the exchange rates used to calculate Total ARR on an annual basis at the beginning of each fiscal year.

We experienced an increase in ARR during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase in ARR was primarily driven by an increase in paying users across our product portfolio, as well as an increased mix of sales going to our higher-priced subscription plans.

The below tables set forth our Total ARR using the exchange rates set at the beginning of each year, as well as on a constant currency basis relative to the exchange rates used in 2020.

	As of December 31,		
	2020	2019	2018
	(In millions)		
Total ARR	\$ 2,022	\$ 1,820	\$ 1,530

Constant Currency	As of December 31,		
	2020	2019	2018
	(In millions)		
Total ARR	\$ 2,022	\$ 1,811	\$ 1,510

Revaluing our ending Total ARR for fiscal 2020 using exchange rates set at the beginning of fiscal 2021, Total ARR at the end of fiscal 2020 would be \$2,052 million.

We undertook several business initiatives that positively impacted Total ARR in the periods presented. These initiatives include the renewal of our grandfathered existing Dropbox Business teams into the Dropbox Business Advanced plan in the second quarter of 2018, and the repricing and repackaging of our existing Dropbox Plus plans in the second quarter of 2019. As of the fiscal year ended 2020, all of our existing Dropbox Plus plans have successfully migrated over to our now current pricing and packaging. In addition to these business initiatives, we also acquired HelloSign in the first quarter of 2019, resulting in a benefit to Total ARR in that period. We also undertook several initiatives to improve the conversion rate of our free users to paying users and saw benefits in Total ARR as we continued to expand our user base and saw an increased mix of sales towards our higher-priced subscription plans.

Paying users

We define paying users as the number of users who have active paid licenses for access to our platform as of the end of the period. One person would count as multiple paying users if the person had more than one active license. For example, a 50-person Dropbox Business team would count as 50 paying users, and an individual Dropbox Plus user would count as one paying user. If that individual Dropbox Plus user was also part of the 50-person Dropbox Business team, we would count the individual as two paying users.

We have experienced growth in the number of paying users across our products, with the majority of paying users for the periods presented coming from our self-serve channels.

We acquired HelloSign in the first quarter of fiscal 2019. HelloSign has several product lines and the pricing and revenue generated from each product line varies, with some product lines priced based on the number of licenses purchased (similar to Dropbox plans). For purposes of HelloSign results, we include as paying users either (i) the number of users who have active paid licenses for access to the HelloSign platform as of the period end for those products that are priced based on the number of licenses purchased (which is the same method we use to evaluate existing Dropbox plans) or (ii) the number of customers for those products that are priced based on transaction volumes.

The below table sets forth the number of paying users as of December 31, 2020, 2019, and 2018:

	As of December 31,		
	2020	2019	2018
	<i>(In millions)</i>		
Paying users	15.48	14.31	12.70

Average revenue per paying user

We define average revenue per paying user, or ARPU, as our revenue for the period presented divided by the average paying users during the same period. For interim periods, we use annualized revenue, which is calculated by dividing the revenue for the particular period by the number of days in that period and multiplying this value by 365 days. Average paying users are calculated based on adding the number of paying users as of the beginning of the period to the number of paying users as of the end of the period, and then dividing by two.

In the second quarter of 2019, we repackaged our existing Dropbox Plus plans to include additional features and, as a result, increased the price for new and existing users on this plan. For certain existing users at the time of the price change, the increase in price was effective on their next renewal date. As a result of the price increase, and combined with an increased mix of sales towards our higher-priced subscription plans, we experienced an increase in our average revenue per paying user for the year ended December 31, 2020, compared to the year ended December 31, 2019. As of the fiscal year ended 2020, all of our existing Dropbox Plus plans have successfully migrated over to our now current pricing and packaging.

The below table sets forth our ARPU for the years ended December 31, 2020, 2019, and 2018.

	Year ended December 31,		
	2020	2019	2018
ARPU	\$ 128.50	\$ 123.07	\$ 117.64

Non-GAAP Financial Measure

In addition to our results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe that free cash flow, or FCF, a non-GAAP financial measure, is useful in evaluating our liquidity.

Free cash flow

We define FCF as GAAP net cash provided by operating activities less capital expenditures. We believe that FCF is a liquidity measure and that it provides useful information regarding cash provided by operating activities and cash used for investments in property and equipment required to maintain and grow our business. FCF is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. FCF has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are that FCF does not reflect our future contractual commitments, excludes investments made to acquire assets under finance leases, and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

Our FCF increased for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily due to an increase in cash provided by operating activities, which was driven by increased subscription sales, as a majority of our paying users are invoiced in advance, and a decrease in capital expenditures, due to decreased spend on office build-outs.

We expect our FCF to generally increase in future periods as we increase subscription sales and reduce our capital expenditures as we shift to a Virtual First environment. We expect to continue to purchase infrastructure equipment to support our user base, however we anticipate our capital expenditures related to our office spaces will decline as the majority of spend related to the build-out of our corporate headquarters is now complete. The timing of our operating expenses as described below, may result in FCF to vary from period to period as a percentage of revenue.

The following is a reconciliation of FCF to the most comparable GAAP measure, net cash provided by operating activities:

	Year ended December 31,		
	2020	2019	2018
	<i>(In millions)</i>		
Net cash provided by operating activities	\$ 570.8	\$ 528.5	\$ 425.4
Capital expenditures	(80.1)	(136.1)	(63.0)
Free cash flow	<u>\$ 490.7</u>	<u>\$ 392.4</u>	<u>\$ 362.4</u>

Components of Our Results of Operations

Revenue

We generate revenue from sales of subscriptions to our platform.

Revenue is recognized ratably over the related contractual term generally beginning on the date that our platform is made available to a customer. Our subscription agreements typically have monthly or annual contractual terms, although a small percentage have multi-year contractual terms. Our agreements are generally non-cancelable. We typically bill in advance for monthly contracts and annually in advance for contracts with terms of one year or longer. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized.

Our revenue is driven primarily by conversions and upsells to our paid plans. We generate over 90% of our revenue from self-serve channels. No customer represented more than 1% of our revenue in the periods presented.

Cost of revenue and gross margin

Cost of revenue. Our cost of revenue consists primarily of expenses associated with the storage, delivery, and distribution of our platform for both paying users and free users, also known as Basic users. These costs, which we refer to as infrastructure

costs, include depreciation of our servers located in co-location facilities that we lease and operate, rent and facilities expense for those datacenters, network and bandwidth costs, support and maintenance costs for our infrastructure equipment, and payments to third-party datacenter service providers. Cost of revenue also includes costs, such as salaries, bonuses, employer payroll taxes and benefits, travel-related expenses, and stock-based compensation, which we refer to as employee-related costs, for employees whose primary responsibilities relate to supporting our infrastructure and delivering user support. Other non-employee costs included in cost of revenue include credit card fees related to processing customer transactions, and allocated overhead, such as facilities, including rent, utilities, depreciation on leasehold improvements and other equipment shared by all departments, and shared information technology costs. In addition, cost of revenue includes amortization of developed technologies, professional fees related to user support initiatives, and property taxes related to the datacenters.

We plan to continue increasing the capacity and enhancing the capability and reliability of our infrastructure to support user growth and increased use of our platform. We expect that cost of revenue will increase in absolute dollars in future periods.

Gross margin. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period based on the timing of additional capital expenditures and the related depreciation expense, or other increases in our infrastructure costs, as well as revenue fluctuations. As we continue to utilize internal infrastructure, we generally expect our gross margin, to remain relatively constant in both the near term and long term.

Operating expenses

Research and development. Our research and development expenses consist primarily of employee-related costs for our engineering, product, and design teams, compensation expenses related to key personnel from acquisitions and allocated overhead. Additionally, research and development expenses include internal development-related third-party hosting fees. We have expensed almost all of our research and development costs as they were incurred.

We plan to continue hiring employees for our engineering, product, and design teams to support our research and development efforts. We expect that research and development costs will increase in absolute dollars in future periods and fluctuate from period to period as a percentage of revenue.

Sales and marketing. Our sales and marketing expenses relate to both self-serve and outbound sales activities, and consist primarily of employee-related costs, brand marketing costs, lead generation costs, sponsorships and allocated overhead. Sales commissions earned by our outbound sales team and the related payroll taxes, as well as commissions earned by third-party resellers that we consider to be incremental and recoverable costs of obtaining a contract with a customer, are deferred and are typically amortized over an estimated period of benefit of five years. Additionally, sales and marketing expenses include non-employee costs related to app store fees, fees payable to third-party sales representatives and amortization of acquired customer relationships.

We plan to continue to invest in sales and marketing to grow our user base and increase our brand awareness, including marketing efforts to continue to drive our self-serve business model. We expect that sales and marketing expenses will increase in absolute dollars in future periods and will fluctuate as a percentage of revenue. The trend and timing of sales and marketing expenses will depend in part on the timing of marketing campaigns.

General and administrative. Our general and administrative expenses consist primarily of employee-related costs for our legal, finance, human resources, and other administrative teams, as well as certain executives. In addition, general and administrative expenses include allocated overhead, outside legal, accounting and other professional fees, and non-income based taxes.

We expect to incur additional general and administrative expenses to support the growth of the Company. General and administrative expenses include the recognition of stock-based compensation expense related to the grant of restricted stock made to our co-founder. We expect that general and administrative expenses will fluctuate in absolute dollars in future periods and will generally decrease as a percentage of revenue, as a result of lower amortization of the right-of-use assets and depreciation of related property and equipment assets following the impairment charge recorded during the year ended December 31, 2020, and our reduction in force.

Interest income (expense), net

Interest income (expense), net consists primarily of interest income earned on our money market funds classified as cash and cash equivalents and short-term investments, partially offset by interest expense related to our finance lease obligations for infrastructure.

Other income (expense), net

Other income (expense), net consists of other non-operating gains or losses, including those related to equity investments, lease arrangements, which include sublease income, foreign currency transaction gains and losses, and realized gains and losses related to our short-term investments.

Benefit from (provision for) income taxes

Provision for income taxes consists primarily of U.S. federal and state income taxes and income taxes in certain foreign jurisdictions in which we conduct business. For the periods presented, the difference between the U.S. statutory rate and our effective tax rate is primarily due to the valuation allowance on deferred tax assets. Our effective tax rate is also impacted by earnings realized in foreign jurisdictions with statutory tax rates lower than the federal statutory tax rate. We maintain a full valuation allowance on our net deferred tax assets for federal, state, and certain foreign jurisdictions as we have concluded that it is not more likely than not that the deferred assets will be realized.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenue for those periods:

	Year ended December 31,		
	2020	2019	2018
	(In millions)		
Revenue	\$ 1,913.9	\$ 1,661.3	\$ 1,391.7
Cost of revenue ⁽¹⁾	414.6	411.0	394.7
Gross profit	1,499.3	1,250.3	997.0
Operating expenses: ⁽¹⁾			
Research and development	727.5	662.1	768.2
Sales and marketing	422.8	423.3	439.6
General and administrative	227.8	245.4	283.2
Impairment related to real estate assets ⁽²⁾	398.2	—	—
Total operating expenses	1,776.3	1,330.8	1,491.0
Loss from operations	(277.0)	(80.5)	(494.0)
Interest income, net	1.7	12.5	7.1
Other income, net	25.1	16.0	6.8
Loss before income taxes	(250.2)	(52.0)	(480.1)
Benefit from (provision for) income taxes	(6.1)	(0.7)	(4.8)
Net loss	\$ (256.3)	\$ (52.7)	\$ (484.9)

⁽¹⁾ Includes stock-based compensation as follows:

	Year ended December 31,		
	2020	2019	2018
	(In millions)		
Cost of revenue	\$ 17.1	\$ 15.8	\$ 47.0
Research and development	174.1	147.6	368.2
Sales and marketing	33.7	31.4	94.3
General and administrative ⁽³⁾	36.6	66.4	140.6
Total stock-based compensation ⁽⁴⁾	\$ 261.5	\$ 261.2	\$ 650.1

⁽²⁾ Includes impairment charges related to certain right-of-use and other lease related assets as a result of our decision to shift to a Virtual First work model. See Note 9 "Leases" for further information.

⁽³⁾ On March 19, 2020, one of our co-founders resigned as a member of the board and as an officer of the Company, resulting in the reversal of \$23.8 million in stock-based compensation expense. Of the total amount reversed, \$21.5 million related to expense recognized prior to December 31, 2019. See Note 12 "Stockholders' Equity" for further information.

- (4) Upon the effectiveness of the registration statement for our initial public offering, which was March 22, 2018, the liquidity event-related performance vesting condition associated with our two-tier RSUs was satisfied. During the year ended December 31, 2018, we recognized the cumulative unrecognized stock-based compensation of \$418.7 million. See "Significant Impacts of Stock Based Compensation" for further information regarding our equity arrangements

The following table sets forth our results of operations for each of the periods presented as a percentage of revenue:

	Year ended December 31,		
	2020	2019	2018
	<i>As a percentage of revenue</i>		
Revenue	100 %	100 %	100 %
Cost of revenue	22	25	28
Gross profit	78	75	72
Operating expenses:			
Research and development	38	40	55
Sales and marketing	22	25	32
General and administrative	12	15	20
Impairment related to real estate assets	21	—	—
Total operating expenses	93	80	107
Loss from operations	(14)	(5)	(35)
Interest income, net	—	1	1
Other income, net	1	1	—
Loss before income taxes	(13)	(3)	(34)
Benefit from (provision for) income taxes	—	—	—
Net loss	(13)%	(3)%	(35)%

Comparison of the year ended December 31, 2020 and 2019

Revenue

	Year ended December 31,			
	2020	2019	\$ Change	% Change
	(In millions)			
Revenue	\$ 1,913.9	\$ 1,661.3	\$ 252.6	15 %

Revenue increased \$252.6 million or 15% during the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase in revenue was driven primarily by an increase in paying users, an increase in the price of our Plus plan, and an increased mix of sales towards our higher-priced subscription plans.

Cost of revenue, gross profit, and gross margin

	Year ended December 31,			
	2020	2019	\$ Change	% Change
	(In millions)			
Cost of revenue	\$ 414.6	\$ 411.0	\$ 3.6	1 %
Gross profit	1,499.3	1,250.3	249.0	20 %
Gross margin	78 %	75 %		

Cost of revenue increased \$3.6 million or 1% during the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to increases of \$6.2 million in employee-related costs due to headcount growth and \$5.7 million in credit card transaction fees due to higher sales and professional fees for user support. These increases were offset by a decrease of \$8.0 million in infrastructure costs due to unit and storage cost efficiency gains related to our ongoing infrastructure optimization efforts.

Our gross margin increased from 75% during the year ended December 31, 2019 to 78% during the year ended December 31, 2020, primarily due to a 15% increase in our revenue during the period offset by a lesser increase in our cost of revenue described above.

Research and development

	Year ended December 31,			
	2020	2019	\$ Change	% Change
	<i>(In millions)</i>			
Research and development	\$ 727.5	\$ 662.1	\$ 65.4	10 %

Research and development expenses increased \$65.4 million or 10% during the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to an increase of \$62.4 million in employee-related costs due to headcount growth in the first half of the fiscal year ended 2020.

Sales and marketing

	Year ended December 31,			
	2020	2019	\$ Change	% Change
	<i>(In millions)</i>			
Sales and marketing	\$ 422.8	\$ 423.3	\$ (0.5)	— %

Sales and marketing expenses decreased \$0.5 million or 0% during the year ended December 31, 2020, as compared to the year ended December 31, 2019, due to decreases of \$13.6 million related to brand marketing expenses driven by a reduction of events due to the COVID-19 pandemic, and \$6.4 million in allocated overhead, which includes facilities-related costs for our corporate headquarters. These decreases were offset by increases of \$13.2 million in app store fees due to increased sales and \$7.8 million in employee-related costs due to headcount growth in the first half of the fiscal year ended 2020.

General and administrative

	Year ended December 31,			
	2020	2019	\$ Change	% Change
	<i>(In millions)</i>			
General and administrative	\$ 227.8	\$ 245.4	\$ (17.6)	(7)%

General and administrative expense decreased \$17.6 million or 7% during the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to a decrease of \$29.8 million in stock-based compensation, with the majority of the decrease due to the resignation of one of our co-founders and the forfeiture of his Co-Founder Grant in the first quarter of 2020 as discussed in " --Note 12. Stockholders' Equity." The decrease was offset by increases of \$7.3 million in legal fees and insurance premiums and \$2.6 million in allocated overhead, which includes facilities-related costs for our corporate headquarters.

Impairment related to real estate assets

Impairment related to real estate assets was \$398.2 million during the year ended December 31, 2020, due to an impairment charge related to the right-of-use and other lease related assets driven by the decision to shift towards a Virtual First work model as discussed in "--Note 9. Leases."

Interest income, net

Interest income, net decreased \$10.8 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to a decrease in interest income from our money market funds and short-term investments as a result of government-initiated interest rate reductions in response to the COVID-19 pandemic.

Other income, net

Other income, net increased \$9.1 million during the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to \$16.0 million in gains related to an equity investment and foreign currency transaction gains. These increases were offset by a decrease of \$6.8 million due to the disposal of infrastructure assets in the year ended December 31, 2019.

Benefit from (provision for) income taxes

Provision for income taxes increased by \$5.4 million during the year ended December 31, 2020 as compared to the year ended December 31, 2019, primarily due to a one-time tax benefit related to the acquisition of HelloSign in 2019.

Quarterly Results of Operations (Unaudited)

The following table sets forth our unaudited quarterly statements of operations data for each of the last eight quarters ended December 31, 2020. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this Annual Report on Form 10-K and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. These quarterly results of operations are not necessarily indicative of our future results of operations that may be expected for any future period.

	Three months ended							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
<i>(In millions, except per share amounts)</i>								
Revenue	\$ 504.1	\$ 487.4	\$ 467.4	\$ 455.0	\$ 446.0	\$ 428.2	\$ 401.5	\$ 385.6
Cost of revenue ⁽¹⁾	105.8	103.2	102.5	103.1	104.9	104.8	102.9	98.4
Gross profit	398.3	384.2	364.9	351.9	341.1	323.4	298.6	287.2
Operating expenses: ⁽¹⁾								
Research and development	176.6	183.3	185.8	181.8	176.9	172.8	162.4	150.0
Sales and marketing	109.9	105.8	102.8	104.3	106.3	108.2	107.3	101.5
General and administrative	60.2	65.1	63.5	39.0	64.5	61.0	62.9	57.0
Impairment related to real estate assets ⁽²⁾	398.2	—	—	—	—	—	—	—
Total operating expenses	744.9	354.2	352.1	325.1	347.7	342.0	332.6	308.5
Income (loss) from operations	\$ (346.6)	\$ 30.0	\$ 12.8	\$ 26.8	\$ (6.6)	\$ (18.6)	\$ (34.0)	\$ (21.3)
Net income (loss)	\$ (345.8)	\$ 32.7	\$ 17.5	\$ 39.3	\$ (6.6)	\$ (17.0)	\$ (21.4)	\$ (7.7)
Basic net income (loss) per share	\$ (0.84)	\$ 0.08	\$ 0.04	\$ 0.09	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.02)
Diluted net income (loss) per share	\$ (0.84)	\$ 0.08	\$ 0.04	\$ 0.09	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.02)

⁽¹⁾ Includes stock-based compensation as follows:

	Three months ended							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
<i>(In millions)</i>								
Cost of revenue	\$ 4.5	\$ 4.6	\$ 4.5	\$ 3.5	\$ 4.0	\$ 4.1	\$ 4.7	\$ 3.0
Research and development	43.0	46.9	47.0	37.2	40.5	38.9	37.7	30.5
Sales and marketing	8.6	8.9	9.5	6.7	7.8	7.7	8.8	7.1
General and administrative ⁽³⁾	13.3	15.3	15.6	(7.6)	17.0	17.5	16.9	15.0
Total stock-based compensation ⁽⁴⁾	\$ 69.4	\$ 75.7	\$ 76.6	\$ 39.8	\$ 69.3	\$ 68.2	\$ 68.1	\$ 55.6

⁽²⁾ Includes impairment charges related to certain right-of-use and other lease related assets as a result of our decision to shift to a Virtual First work model. See Note 9 "Leases" for further information.

⁽³⁾ On March 19, 2020, one of our co-founders resigned as a member of the board and as an officer of the Company, resulting in the reversal of \$23.8 million in stock-based compensation expense. Of the total amount reversed, \$21.5 million related to expense recognized prior to December 31, 2019. See Note 12 "Stockholders' Equity" for further information.

⁽⁴⁾ Upon the effectiveness of the registration statement for our initial public offering, which was March 22, 2018, the liquidity event-related performance vesting condition associated with our two-tier RSUs was satisfied. During the year ended December 31, 2018, we recognized the cumulative unrecognized stock-based compensation of \$418.7 million. See "Significant Impacts of Stock Based Compensation" for further information regarding our equity arrangements.

	Three months ended							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	<i>(As a % of revenue)</i>							
Revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of revenue	21	21	22	23	24	24	26	26
Gross profit	79	79	78	77	76	76	74	74
Operating expenses:								
Research and development	35	38	40	40	40	40	40	39
Sales and marketing	22	22	22	23	24	25	27	26
General and administrative	12	13	14	9	14	14	16	15
Impairment related to real estate assets	79	—	—	—	—	—	—	—
Total operating expenses	148	73	75	71	78	80	83	80
Income (loss) from operations	(69)%	6 %	3 %	6 %	(1)%	(4)%	(8)%	(6)%
Net Income (loss)	(69)%	7 %	4 %	9 %	(1)%	(4)%	(5)%	(2)%

Quarterly revenue trends

Quarterly revenue increased sequentially in each of the quarters presented primarily due to increases in Total ARR, paying users, and average revenue per paying user. Seasonality in revenue is not material.

Quarterly cost of revenue and gross margin trends

Cost of revenue was relatively constant in each of the quarters presented primarily due to unit and storage cost efficiency gains related to our ongoing infrastructure optimization efforts. In addition, cost of revenue as a percentage of revenue generally decreased in the periods presented, which combined with increases in revenue caused gross margins to increase sequentially.

Quarterly operating expense trends

Excluding the impairment related to real estate assets, except for the three months ended March 31, 2020, total quarterly operating expenses generally increased sequentially in each of the quarters presented primarily due to headcount growth in connection with the expansion of the business and other events that are discussed herein. During the three months ended December 31, 2020, quarterly operating expenses increased as a percentage of revenues due to impairment charges related to the right-of-use and other lease related assets driven by the decision to shift towards a Virtual First work model as discussed in "--Note 9. Leases." Quarterly operating expenses during the three months ended March 31, 2020, was lower than other quarters due to the resignation of one of the co-founders and the forfeiture of his Co-Founder Grant as discussed in "--Note 12. Stockholders' Equity."

Research and development

Research and development expenses have generally increased sequentially in the quarters presented primarily due to employee-related costs due to headcount growth. Research and development expenses as a percentage of revenue during the three months ended December 31, 2020 decreased due to lower allocated overhead, which includes facilities-related costs for our corporate headquarters.

Sales and marketing

Sales and marketing expenses fluctuated in the quarters presented primarily due to increases in app store fees due to increased sales, and employee-related costs due to headcount growth, which was offset by a reduction in brand marketing expense due to a reduction of events as a result of the COVID-19 pandemic in the year ended December 31, 2020. Additionally, the timing of brand advertising campaigns can impact the trends in sales and marketing expenses.

General and administrative

General and administrative expenses fluctuated in the quarters presented primarily due to increases in outside services that includes legal fees and insurance premiums, and allocated overhead, which includes facilities-related costs for our corporate headquarters, offset by decreases in non-income based taxes. General and administrative expenses during the three months ended

March 31, 2020, was lower than the other quarters presented primarily due to a decrease in stock-based compensation due to the resignation of one of our co-founders and the forfeiture of his Co-Founder Grant as discussed in "--Note 12. Stockholders' Equity."

Impairment related to real estate assets

During the three months ended December 31, 2020, we recognized impairment charges related to the right-of-use and other lease related assets driven by the decision to shift towards a Virtual First work model as discussed in "--Note 9. Leases."

Liquidity and Capital Resources

As of December 31, 2020, we had cash and cash equivalents of \$314.9 million and short-term investments of \$806.4 million, which were held for working capital purposes. Our cash, cash equivalents, and short-term investments consist primarily of cash, money market funds, corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, foreign government securities, U.S. agency obligations, supranational securities, and municipal securities. As of December 31, 2020, we had \$138.1 million of our cash and cash equivalents held by our foreign subsidiaries. We do not expect to incur material taxes in the event we repatriate any of these amounts.

Since our inception, we have financed our operations primarily through equity issuances, cash generated from our operations, and finance leases to finance infrastructure-related assets in co-location facilities that we directly lease and operate. We enter into finance leases in part to better match the timing of payments for infrastructure-related assets with that of cash received from our paying users. In our business model, some of our registered users convert to paying users over time, and consequently there is a lag between initial investment in infrastructure assets and cash received from some of our users.

Our principal uses of cash in recent periods have been funding our operations, purchases of short-term investments, the satisfaction of tax withholdings in connection with the settlement of restricted stock units and awards, making principal payments on our finance lease obligations, and capital expenditures. In February 2020, our Board of Directors approved a stock repurchase program for the repurchase of up to \$600 million of the outstanding shares of our Class A common stock. In February 2021 our Board of Directors authorized the repurchase of up to an additional \$1 billion of the outstanding shares of our Class A common stock. Share repurchases will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements and will be subject to a review of the circumstances in place at that time, including prevailing market prices. The program does not obligate us to repurchase any specific number of shares and has no specified time limit; it may be discontinued at any time. During the year ended December 31, 2020, we repurchased and subsequently retired 20.2 million shares of our Class A common stock for an aggregate amount of \$397.5 million.

In April 2017, we entered into a \$600.0 million credit facility with a syndicate of financial institutions. Pursuant to the terms of the revolving credit facility, we may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing under such facility. The revolving credit facility terminates on April 4, 2022. In February 2018, we amended our revolving credit facility to, among other things, permit us to make certain investments, enter into an unsecured standby letter of credit facility, and increase our standby letter of credit sublimit to \$187.5 million. We also increased our borrowing capacity under the revolving credit facility from \$600.0 million to \$725.0 million. We may from time to time request increases in the borrowing capacity under our revolving credit facility of up to \$275.0 million, provided no event of default has occurred or is continuing or would result from such increase.

Interest on borrowings under the revolving credit facility accrues at a variable rate tied to the prime rate or the LIBOR rate, at our election. Interest is payable quarterly in arrears. Pursuant to the terms of the revolving credit facility, we are required to pay an annual commitment fee that accrues at a rate of 0.20% per annum on the unused portion of the borrowing commitments under the revolving credit facility. In addition, we are required to pay a fee in connection with letters of credit issued under the revolving credit facility that accrues at a rate of 1.5% per annum on the amount of such letters of credit outstanding. There is an additional fronting fee of 0.125% per annum multiplied by the average aggregate daily maximum amount available under all letters of credit.

The revolving credit facility contains customary conditions to borrowing, events of default, and covenants, including covenants that restrict our ability to incur indebtedness, grant liens, make distributions to our holders or our subsidiaries' equity interests, make investments, or engage in transactions with our affiliates. In addition, the revolving credit facility contains financial covenants, including a consolidated leverage ratio covenant and a minimum liquidity balance. We were in compliance with all covenants under the revolving credit facility as of December 31, 2020.

As of December 31, 2020, we had no amounts outstanding under the revolving credit facility and an aggregate of \$45.4 million in letters of credit issued under the revolving credit facility. Our total available borrowing capacity under the revolving credit facility was \$679.6 million as of December 31, 2020. In anticipation of the termination of the credit facility, we expect to amend or otherwise refinance the credit facility prior to such termination.

We believe our existing cash and cash equivalents, together with our short-term investments, cash provided by operations and amounts available under the revolving credit facility, will be sufficient to meet our needs for the foreseeable future. Our future capital requirements will depend on many factors including our revenue growth rate, subscription renewal activity, billing frequency, the timing and extent of spending to support further infrastructure development and research and development efforts, the timing and extent of additional capital expenditures to invest in collaboration spaces, our ability to sublease space at certain office locations, such as our corporate headquarters, the satisfaction of tax withholding obligations for the release of restricted stock units and awards, the expansion of sales and marketing and international operation activities, the

introduction of new product capabilities and enhancement of our platform, the continuing market acceptance of our platform, the volume and timing of our share repurchases and any potential impacts of the COVID-19 pandemic on our business. We have and may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition could be materially and adversely affected.

Our cash flow activities were as follows for the periods presented:

	Year ended December 31,	
	2020	2019
	<i>(In millions)</i>	
Net cash provided by operating activities	\$ 570.8	\$ 528.5
Net cash used in investing activities	(233.6)	(320.0)
Net cash used in provided by financing activities	(577.7)	(176.7)
Effect of exchange rate changes on cash and cash equivalents	4.1	0.2
Net (decrease) increase in cash and cash equivalents	<u>\$ (236.4)</u>	<u>\$ 32.0</u>

Operating activities

Our largest source of operating cash is cash collections from our paying users for subscriptions to our platform. Our primary uses of cash from operating activities are for employee-related expenditures, infrastructure-related costs, and marketing expenses. Net cash provided by operating activities is impacted by our net loss adjusted for certain non-cash items, including depreciation and amortization expenses and stock-based compensation, as well as the effect of changes in operating assets and liabilities.

For the year ended December 31, 2020, net cash provided by operating activities was \$570.8 million, which mostly consisted of our net loss of \$256.3 million, adjusted for impairment related to real estate assets of \$398.2 million, stock-based compensation expense of \$261.5 million, depreciation and amortization expenses of \$159.3 million, and net cash inflow of \$3.8 million from operating assets and liabilities. The inflow from operating assets and liabilities was primarily due to an increase in deferred revenue from increased subscription sales, as a majority of our paying users are invoiced in advance, partially offset by the payment of our corporate bonus and key employee holdback payments related to the acquisition of HelloSign.

For the year ended December 31, 2019, net cash provided by operating activities was \$528.5 million, which mostly consisted of our net loss of \$52.7 million, adjusted for stock-based compensation expense of \$261.2 million and depreciation and amortization expenses of \$173.5 million, and net cash inflow of \$145.6 million from operating assets and liabilities. The inflow from operating assets and liabilities was primarily due to an increase of \$68.7 million in deferred revenue from increased subscription sales, as a majority of our paying users are invoiced in advance. Additionally, cash provided by operating activities increased due to an increase in other operating assets and liabilities of \$76.9 million. Our net cash provided by operating activities for the year ended December 31, 2019 also included cash payments of \$55.3 million related to tenant improvement reimbursements.

Investing activities

Net cash used in investing activities is primarily impacted by purchases of short-term investments, purchases of property and equipment to make improvements or modifications to existing and new office spaces, and for purchasing infrastructure equipment in co-location facilities that we directly lease and operate.

For the year ended December 31, 2020, net cash used in investing activities was \$233.6 million, which primarily related to \$170.6 million in net investment outflows, driven by the purchases of short-term investments, net of sales and maturities and \$15.1 million in equipment rebates. Additionally, cash paid for capital expenditures during the period was \$80.1 million related to our office and datacenter build-outs.

For the year ended December 31, 2019, net cash used in investing activities was \$320.0 million, which primarily related to purchases of short-term investments of \$775.4 million, cash paid for our acquisition of HelloSign, net of cash acquired, of

\$171.6 million and capital expenditures of \$136.1 million related to our office and datacenter build-outs. These outflows were partially offset by inflows of \$750.9 million related to proceeds from maturities and sales of short-term investments.

Financing activities

Net cash used in financing activities is primarily impacted by repurchases of common stock to satisfy the tax withholding obligation for the release of restricted stock units ("RSUs") and restricted stock awards ("RSAs") and principal payments on finance lease obligations for our infrastructure equipment.

For the year ended December 31, 2020, net cash used in financing activities was \$577.7 million, which primarily consisted of \$397.5 million for the repurchase of our common stock in relation to current our stock repurchase program, \$92.2 million for the satisfaction of tax withholding obligations for the release of restricted stock units and awards, and \$89.5 million in principal payments on finance lease obligations.

For the year ended December 31, 2019, net cash used in financing activities was \$176.7 million, which primarily consisted of \$92.9 million in principal payments against finance lease obligations and \$85.4 million for the satisfaction of tax withholding obligations for the release of restricted stock units and awards.

Contractual Obligations

Our principal commitments consist of obligations under operating leases for office space and datacenter operations, and finance leases for datacenter equipment, furniture and fixtures, and computer equipment. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2020, for the periods presented below:

	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	<i>(In millions)</i>				
Operating lease commitments ⁽¹⁾	\$ 1,195.2	\$ 125.0	\$ 235.2	\$ 192.2	\$ 642.8
Finance lease commitments ⁽²⁾	284.4	106.9	152.9	24.6	—
Other commitments ⁽³⁾	144.5	52.8	75.1	—	16.6
Total contractual obligations	<u>\$ 1,624.1</u>	<u>\$ 284.7</u>	<u>\$ 463.2</u>	<u>\$ 216.8</u>	<u>\$ 659.4</u>

⁽¹⁾ Consists of future non-cancelable minimum rental payments under operating leases for our offices and datacenters, excluding rent payments from our sub-tenants and variable operating expenses. As of December 31, 2020, we are entitled to non-cancelable rent payments from our sub-tenants of \$133.8 million, which will be collected over the next 13 years.

⁽²⁾ Consists of future non-cancelable minimum rental payments under finance leases primarily for our infrastructure.

⁽³⁾ Consists of commitments to third-party vendors for services related to our infrastructure, infrastructure warranty contracts, and asset retirement obligations for office modifications.

In addition to the contractual obligations set forth above, as of December 31, 2020, we had an aggregate of \$45.4 million in letters of credit outstanding under our revolving credit facility.

Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes.

Significant Impacts of Stock-Based Compensation

Restricted Stock Units

We have granted restricted stock units, or RSUs, to our employees and members of our Board of Directors under our 2008 Equity Incentive Plan, or 2008 Plan, our 2017 Equity Incentive Plan, or 2017 Plan and our 2018 Equity Incentive Plan, or 2018 Plan. While we have previously granted two types of RSUs under the Dropbox Equity Incentive Plans, as of December 31, 2020, only one-tier RSUs were outstanding.

- One-tier RSUs, which have a service-based vesting condition over a four-year period. These awards typically have a cliff vesting period of one year and continue to vest quarterly thereafter. We recognize compensation expense associated with one-tier RSUs ratably on a straight-line basis over the requisite service period.
- Two-tier RSUs, which had both a service-based vesting condition and a liquidity event-related performance vesting condition. These awards typically had a service-based vesting period of four years with a cliff vesting period of one year and continued to vest monthly thereafter.

Upon the effectiveness of the registration statement related to our IPO, we recognized stock-based compensation related to our two-tier RSUs using the accelerated attribution method, with a cumulative catch-up in the amount of \$418.7 million attributable to service provided prior to such effective date.

Co-Founder Grants

In December 2017, the Board of Directors approved a grant to the Company's co-founders of non-Plan RSAs with respect to 14.7 million shares of Class A Common Stock in the aggregate (collectively, the "Co-Founder Grants"), of which 10.3 million RSAs were granted to Mr. Houston, the Company's co-founder and Chief Executive Officer, and 4.4 million RSAs were granted to Mr. Ferdowsi, the Company's co-founder and former Director. These Co-Founder Grants have service-based, market-based, and performance-based vesting conditions. The Co-Founder Grants are excluded from Class A common stock issued and outstanding until the satisfaction of these vesting conditions. The Co-Founder Grants also provide the holders with certain stockholder rights, such as the right to vote the shares with the other holders of Class A common stock and a right to cumulative declared dividends. However, the Co-Founder Grants are not considered a participating security for purposes of calculating net loss per share attributable to common stockholders in Note 13, "Net Loss Per Share", as the right to the cumulative declared dividends is forfeitable if the service condition is not met.

In March 2020, one of the Company's co-founders, Mr. Ferdowsi, resigned as a member of the Board of Directors and as an officer of the Company. As of the date of Mr. Ferdowsi's resignation, none of the Stock Price Targets had been met, resulting in the forfeiture of his 4.4 million RSAs. As he did not provide the requisite service associated with the Co-Founder Grants, the Company reversed all stock-based compensation expense that had been recognized from the grant date through March 19, 2020. See Note 12, "Stockholders' Equity" for further information.

The Co-Founder Grants are eligible to vest over the ten-year period following the date the Company's shares of Class A common stock commenced trading on the Nasdaq Global Select Market in connection with the Company's IPO. The Co-Founder Grants comprise nine tranches that are eligible to vest based on the achievement of stock price goals, each of which are referred to as a Stock Price Target, measured over a consecutive thirty-day trading period during the Performance Period. The Performance Period began on January 1, 2019 and the RSUs expire at the earliest date among the following: the date on which all shares vest, the date the Co-Founder(s) cease to meet their service conditions, or the tenth anniversary of the IPO date.

Company Stock Price Target	Shares Eligible to Vest for Mr. Houston
\$30.00	2,066,667
\$37.50	1,033,334
\$45.00	1,033,334
\$52.50	1,033,333
\$60.00	1,033,333
\$67.50	1,033,333
\$75.00	1,033,333
\$82.50	1,033,333
\$90.00	1,033,333

During the first four years of the Performance Period, no more than 20% of the shares subject to each Co-Founder Grant would be eligible to vest in any calendar year. After the first four years, all shares are eligible to vest based on the achievement of the Stock Price Targets.

The Performance Vesting Condition for the Co-Founder Grants was satisfied on the date the Company's shares of Class A common stock commenced trading on the Nasdaq Global Select Market in connection with the Company's IPO, which was March 23, 2018.

Critical Accounting Policies and Judgments

Our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K are prepared in accordance with generally accepted accounting principles, or GAAP, in the United States. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

We believe that the accounting policies described below involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue recognition

We generate revenue from sales of subscriptions to our platform. Subscription fees exclude sales and other indirect taxes. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Our subscription agreements typically have monthly or annual contractual terms, and a small percentage have multi-year contractual terms. Revenue is recognized ratably over the related contractual term generally beginning on the date that our platform is made available to a customer. Our agreements are generally non-cancelable. We typically bill in advance for monthly contracts and annually in advance for contracts with terms of one year or longer.

Business combinations

Accounting for business combinations requires us to make significant estimates and assumptions. We allocate the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values, with the excess recorded to goodwill. Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows, expected asset lives, and discount rates. The amounts and useful lives assigned to acquisition-related intangible assets impact the amount and timing of future amortization expense.

During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Deferred commissions

Certain sales commissions and the related payroll taxes earned by our outbound sales team, as well as commissions earned by third-party resellers, are considered to be incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized over a period of benefit that we have determined to be five years. We determined the period of benefit by taking into consideration our historical customer attrition rates, the useful life of our technology, and the impact of competition in our industry.

Impairment related to real estate assets

In accordance with ASC 360, Property, Plant, and Equipment ("ASC 360"), we evaluate our long-lived assets for impairment whenever events and circumstances indicate that the assets might be impaired. When the projected undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, the assets are adjusted to their estimated fair value and an impairment loss is recorded as a component of operating income.

In the fourth quarter of 2020, as a result of our Virtual First strategy, we reassessed our asset groupings and evaluated the recoverability of our right-of-use and related lease assets, including leasehold improvements, furniture and fixtures, and computer equipment, and determined that the carrying value of the respective asset groups was not fully recoverable. As a result, we utilized discounted cash flow models to estimate the fair value of the asset groups and calculate the corresponding impairment loss.

The development of discounted cash flow models used to estimate the fair value of the asset groups required the application of significant judgement in determining market participant assumptions, including the projected sublease income over the remaining lease terms, expected downtime prior to the commencement of future subleases, expected lease incentives offered to future tenants, and discount rates that reflected the level of risk associated with these future cash flows.

Recent Accounting Pronouncements

See Note 1, “Description of the Business and Summary of Significant Accounting Policies” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for recently adopted accounting pronouncements as of the date of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

We had cash and cash equivalents of \$314.9 million and short-term investments of \$806.4 million as of December 31, 2020. We hold our cash and cash equivalents and short-term investments for working capital purposes. Our cash, cash equivalents, and short-term investments consist primarily of cash, money market funds, corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, foreign government securities, U.S. agency obligations, supranational securities, and municipal securities. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs, and the control of cash and investments. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Decreases in interest rates, however, would reduce future interest income.

Any borrowings under the revolving credit facility bear interest at a variable rate tied to the prime rate or the LIBOR rate. As of December 31, 2020, we had no amounts outstanding under the revolving credit facility. We do not have any other long-term debt or financial liabilities with floating interest rates that would subject us to interest rate fluctuations.

As of December 31, 2020, a hypothetical change in interest rates by 100 basis points would not have a significant impact on our cash and cash equivalents or the fair value of our investment portfolio.

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates relative to U.S. dollars, our reporting currency.

Most of our revenue is generated in U.S. dollars, with the remainder generated in Euros, British pounds sterling, Australian dollars, Canadian dollars, and Japanese yen.

Our expenses are generally denominated in the currencies in which our operations are located, which are primarily the United States and, to a lesser extent, Europe and Asia. The functional currency of Dropbox International Unlimited, our international headquarters and largest international entity, is denominated in U.S. dollars. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates in ways that are unrelated to our operating performance.

As exchange rates may fluctuate significantly between periods, revenue and operating expenses, when converted into U.S. dollars, may also experience significant fluctuations between periods. Volatile market conditions arising from the COVID-19 pandemic have and may in the future result in significant changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar has and may in the future negatively affect our revenue expressed in U.S. dollars. Historically, a majority of our revenue and operating expenses have been denominated in U.S. dollars, Euros, and British pounds sterling. Although we are impacted by the exchange rate movements from a number of currencies relative to the U.S. dollar, our results of operations are particularly impacted by fluctuations in the U.S. dollar-Euro and U.S. dollar-British pounds sterling exchange rates. In the year ended December 31, 2020, 29% of our sales were denominated in currencies other than U.S. dollars. Our expenses, by contrast, are primarily denominated in U.S. dollars. As a result, any increase in the value of the U.S. dollar against these foreign currencies could cause our revenue to decline relative to our costs, thereby decreasing our margins.

We recorded \$2.9 million gains and \$0.8 million losses in net foreign currency transactions in the years ended December 31, 2020 and 2019, respectively. A hypothetical 10% change in foreign currency rates would not have resulted in material gains or losses for the years ended December 31, 2020, and 2019.

To date, we have not engaged in any hedging activities. As our international operations grow, we will continue to reassess our approach to managing risks relating to fluctuations in currency rates.

Inflation risk

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs. Our inability or failure to do so could harm our business, results of operations, or financial condition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
DROPBOX, INC.
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The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Quarterly Results of Operations."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Dropbox, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dropbox, Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2021 expressed an unqualified opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), and the related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue from Contracts with Customers

Description of the Matter

As described in Note 1 to the consolidated financial statements, the Company derives its revenue from subscription fees from customers for access to its platform, which it recognizes ratably over the related contractual term. The Company's revenue recognition process involves several applications responsible for the initiation, processing, and recording of transactions from the Company's various sales channels, and the calculation of revenue in accordance with the Company's accounting policy.

Auditing the Company's accounting for revenue from contracts with customers was challenging and complex due to the high volume of individually-low-monetary-value transactions, dependency on the effective design and operation of multiple applications, some of which are specifically designed for the Company's business, and the use of multiple data sources in the revenue recognition process.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's accounting for revenue from contracts with customers. For example, with the assistance of IT professionals, we tested the controls over the initiation and billing of new and recurring subscriptions, the provisioning of customers, and the Company's cash to billings reconciliation process. We also tested the controls related to the key application interfaces between the provisioning, billing, and accounting systems, which included controls related to access to the relevant applications and data and changes to the relevant systems and interfaces, as well as controls over the configuration of the relevant applications.

To test the Company's accounting for revenue from contracts with customers, we performed substantive audit procedures that included, among others, testing on a sample basis the completeness and accuracy of the underlying data within the Company's billing system, performing data analytics by extracting data from the system to evaluate the completeness and accuracy of recorded revenue and deferred revenue amounts, tracing a sample of sales transactions to source data, and testing a sample of cash to billings reconciliations.

Impairment of operating lease right-of-use and related assets

*Description of
the Matter*

As disclosed in Note 9 to the consolidated financial statements, the Company recorded additional expense of \$398.2 million in the fourth quarter of the year ended December 31, 2020, as a result of the Company's decision to move to a virtual first work model and subsequent reassessment of the asset groups related to its leased office space. In accordance with ASC 360, the Company performed a recoverability test of its identified asset groups, comprised of operating lease right-of-use and other related assets, and determined that the carrying value of these asset groups was not fully recoverable. As a result, the Company measured and recognized an impairment charge related to these assets representing the amount by which the carrying value exceeded the estimated fair value of these asset groups.

Auditing the Company's impairment measurement involved a high degree of subjectivity due to the significant estimation required by management to determine the fair value of the asset groups. The Company utilized an income approach to value the asset groups, which required the development of a discounted cash flow model utilizing certain key assumptions, including current and future sublease market rent rates, discount rates, and market participant assumptions, such as expected vacancy periods and lease incentives offered to future tenants. These assumptions have a significant effect on the estimated fair values of the asset groups, and the resulting impairment charge, and could be impacted by future economic and market conditions.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's processes to determine the fair values of the asset groups and measure the right-of-use and other related assets impairment charge. For example, we tested the controls over the determination of the fair value of the asset groups subject to impairment, including the selection of the valuation model and the determination and review of the underlying assumptions used to develop the fair value estimates.

Our testing of the Company's impairment measurement included, among other procedures, evaluating the significant assumptions used to estimate fair value. For example, we compared the sublease market rent rate, vacancy period, and tenant lease incentive assumptions used to estimate market participant cash flows to current industry and economic trends, assessed the reasonableness of the discount rates used as part of the discounted cash flow model, and recalculated management's estimate. We also involved our valuation specialists to assist in our evaluation of the significant assumptions used in the fair value estimate.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2013.

San Francisco, California
February 19, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Dropbox, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Dropbox, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Dropbox, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 19, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Francisco, California
February 19, 2021

DROPBOX, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except for par value)

	As of December 31,	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 314.9	\$ 551.3
Short-term investments	806.4	607.7
Trade and other receivables, net	43.4	36.7
Prepaid expenses and other current assets	62.8	47.5
Total current assets	1,227.5	1,243.2
Property and equipment, net	338.7	445.3
Operating lease right-of-use asset	470.5	657.9
Intangible assets, net	33.5	47.4
Goodwill	236.9	234.5
Other assets	80.1	70.9
Total assets	<u>\$ 2,387.2</u>	<u>\$ 2,699.2</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 18.7	\$ 40.7
Accrued and other current liabilities	156.7	161.9
Accrued compensation and benefits	113.6	101.4
Operating lease liability	88.7	79.9
Finance lease obligation	99.6	76.7
Deferred revenue	610.5	554.2
Total current liabilities	1,087.8	1,014.8
Operating lease liability, non-current	759.6	711.9
Finance lease liability, non-current	171.6	138.2
Other non-current liabilities	34.4	25.9
Total liabilities	<u>2,053.4</u>	<u>1,890.8</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$0.00001 par value; no shares authorized, issued and outstanding as of December 31, 2020; no shares authorized, issued and outstanding as of December 31, 2019	—	—
Preferred stock, \$0.00001 par value; 240.0 shares authorized and no shares issued and outstanding as of December 31, 2020; 240.0 shares authorized and no shares issued and outstanding as of December 31, 2019	—	—
Common stock, \$0.00001 par value; Class A common stock - 2,400.0 shares authorized and 322.3 shares issued and outstanding as of December 31, 2020; 2,400.0 shares authorized and 255.8 shares issued and outstanding as of December 31, 2019; Class B common stock - 475.0 shares authorized and 83.5 shares issued and outstanding as of December 31, 2020; 475.0 shares authorized and 161.2 issued and outstanding as of December 31, 2019; Class C common stock - 800.0 shares authorized and no shares issued and outstanding as of December 31, 2020 and as of December 31, 2019	—	—
Additional paid-in capital	2,564.3	2,531.3
Accumulated deficit	(2,241.4)	(1,726.2)
Accumulated other comprehensive income	10.9	3.3
Total stockholders' equity	<u>333.8</u>	<u>808.4</u>
Total liabilities and stockholders' equity	<u><u>\$ 2,387.2</u></u>	<u><u>\$ 2,699.2</u></u>

See accompanying Notes to Consolidated Financial Statements.

DROPBOX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Year ended December 31,		
	2020	2019	2018
Revenue	\$ 1,913.9	\$ 1,661.3	\$ 1,391.7
Cost of revenue ⁽¹⁾	414.6	411.0	394.7
Gross profit	1,499.3	1,250.3	997.0
Operating expenses ⁽¹⁾ :			
Research and development	727.5	662.1	768.2
Sales and marketing	422.8	423.3	439.6
General and administrative	227.8	245.4	283.2
Impairment related to real estate assets ⁽²⁾	398.2	—	—
Total operating expenses	1,776.3	1,330.8	1,491.0
Loss from operations	(277.0)	(80.5)	(494.0)
Interest income, net	1.7	12.5	7.1
Other income, net	25.1	16.0	6.8
Loss before income taxes	(250.2)	(52.0)	(480.1)
Benefit from (provision for) income taxes	(6.1)	(0.7)	(4.8)
Net loss	\$ (256.3)	\$ (52.7)	\$ (484.9)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.62)	\$ (0.13)	\$ (1.35)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	414.3	411.6	358.6

⁽¹⁾ Includes stock-based compensation as follows (in millions):

	Year ended December 31,		
	2020	2019	2018
Cost of revenue	\$ 17.1	\$ 15.8	\$ 47.0
Research and development	174.1	147.6	368.2
Sales and marketing	33.7	31.4	94.3
General and administrative ⁽³⁾⁽⁴⁾	36.6	66.4	140.6

⁽²⁾ Includes impairment charges related to certain right-of-use and other lease related assets as a result of our decision to shift to a Virtual First work model. See Note 9 "Leases" for further information.

⁽³⁾ On March 19, 2020, one of the Company's co-founders resigned as a member of the board and as an officer of the Company, resulting in the reversal of \$23.8 million in stock-based compensation expense. Of the total amount reversed, \$21.5 million related to expense recognized prior to December 31, 2019. See Note 12 "Stockholders' Equity" for further information.

⁽⁴⁾ During the year ended December 31, 2018, the Company recognized the cumulative unrecognized stock-based compensation of \$418.7 million related to the two-tier restricted stock units upon the effectiveness of the Company's registration statement for its initial public offering. See Note 1 "Description of the Business and Summary of Significant Accounting Policies" for further details.

See accompanying Notes to Consolidated Financial Statements.

DROPBOX, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)

	Year ended December 31,		
	2020	2019	2018
Net loss	\$ (256.3)	\$ (52.7)	\$ (484.9)
Other comprehensive income (loss), net of tax:			
Change in foreign currency translation adjustments	\$ 4.8	\$ 2.9	\$ (4.9)
Change in net unrealized gains (losses) on short-term investments	2.8	1.6	(0.5)
Total other comprehensive income (loss), net of tax	\$ 7.6	\$ 4.5	\$ (5.4)
Comprehensive loss	<u>\$ (248.7)</u>	<u>\$ (48.2)</u>	<u>\$ (490.3)</u>

See accompanying Notes to Consolidated Financial Statements.

DROPBOX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)

	Convertible preferred stock		Class A and Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	147.6	\$ 615.3	196.8	\$ —	\$ 533.1	\$ (1,049.7)	\$ 4.2	\$ 102.9
Release of restricted stock units and awards	—	—	40.4	—	—	—	—	—
Shares withheld related to net share settlement	—	—	(15.6)	—	(226.9)	(124.9)	—	(351.8)
Conversion of preferred stock to common stock in connection with initial public offering	(147.6)	(615.3)	147.6	—	615.3	—	—	—
Issuance of common stock in connection with initial public offering and private placement, net of underwriters' discounts and commissions and issuance costs	—	—	37.0	—	739.7	—	—	739.7
Exercise of stock options and awards	—	—	3.4	—	26.2	—	—	26.2
Stock-based compensation	—	—	—	—	650.1	—	—	650.1
Other comprehensive income (loss)	—	—	—	—	—	—	(5.4)	(5.4)
Net loss	—	—	—	—	—	(484.9)	—	(484.9)
Balance at December 31, 2018	—	\$ —	409.6	\$ —	\$ 2,337.5	\$ (1,659.5)	\$ (1.2)	\$ 676.8
Cumulative-effect from adoption of ASC 842	—	—	—	—	—	1.0	—	1.0
Release of restricted stock units and awards	—	—	11.2	—	—	—	—	—
Shares withheld related to net share settlement	—	—	(4.1)	—	(70.4)	(15.0)	—	(85.4)
Exercise of stock options and awards	—	—	0.3	—	2.2	—	—	2.2
Assumed stock options in connection with acquisition	—	—	—	—	0.8	—	—	0.8
Stock-based compensation	—	—	—	—	261.2	—	—	261.2
Other comprehensive income (loss)	—	—	—	—	—	—	4.5	4.5
Net loss	—	—	—	—	—	(52.7)	—	(52.7)
Balance at December 31, 2019	—	\$ —	417.0	\$ —	\$ 2,531.3	\$ (1,726.2)	\$ 3.3	\$ 808.4
Release of restricted stock units and awards	—	—	13.1	—	—	—	—	—
Shares withheld related to net share settlement	—	—	(4.7)	—	(43.5)	(48.7)	—	(92.2)
Repurchases of common stock	—	—	(20.2)	—	(187.3)	(210.2)	—	(397.5)
Exercise of stock options and awards	—	—	0.5	—	2.3	—	—	2.3
Stock-based compensation	—	—	—	—	261.5	—	—	261.5
Other comprehensive income (loss)	—	—	—	—	—	—	7.6	7.6
Net loss	—	—	—	—	—	(256.3)	—	(256.3)
Balance at December 31, 2020	—	\$ —	405.7	\$ —	\$ 2,564.3	\$ (2,241.4)	\$ 10.9	\$ 333.8

See accompanying Notes to Consolidated Financial Statements.

DROPBOX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Net loss	\$ (256.3)	\$ (52.7)	\$ (484.9)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	159.3	173.5	166.8
Stock-based compensation	261.5	261.2	650.1
Impairment related to real estate assets	398.2	—	—
Net gains on equity investments	(17.5)	—	—
Amortization of deferred commissions	24.4	17.5	12.1
Other	(2.6)	(16.6)	(1.9)
Changes in operating assets and liabilities:			
Trade and other receivables, net	(5.5)	(7.5)	0.1
Prepaid expenses and other current assets	(39.4)	(18.2)	(47.9)
Other assets	62.0	61.2	(11.2)
Accounts payable	(19.9)	6.4	(1.7)
Accrued and other current liabilities	(9.8)	23.0	40.3
Accrued compensation and benefits	11.7	19.1	25.0
Deferred revenue	55.1	68.7	66.4
Other non-current liabilities	(72.9)	(62.4)	12.2
Tenant improvement allowance reimbursement	22.5	55.3	—
Net cash provided by operating activities	<u>570.8</u>	<u>528.5</u>	<u>425.4</u>
Cash flows from investing activities			
Capital expenditures	(80.1)	(136.1)	(63.0)
Purchase of intangible assets	(0.2)	(1.7)	(3.0)
Business combinations, net of cash acquired	—	(173.9)	—
Purchases of short-term investments	(756.1)	(775.4)	(850.4)
Proceeds from maturities of short-term investments	386.7	294.8	71.2
Proceeds from sales of short-term investments	198.8	456.1	212.4
Other	17.3	16.2	(1.0)
Net cash used in investing activities	<u>(233.6)</u>	<u>(320.0)</u>	<u>(633.8)</u>
Cash flows from financing activities			
Proceeds from initial public offering and private placement, net of underwriters' discounts and commissions	—	—	746.6
Payments of deferred offering costs	—	—	(4.5)
Shares withheld related to net share settlement	(92.2)	(85.4)	(351.9)
Proceeds from issuance of common stock, net of repurchases	2.3	2.2	26.2
Principal payments on finance lease obligations	(89.5)	(92.9)	(109.1)
Common stock repurchases	(397.5)	—	—
Other	(0.8)	(0.6)	(6.5)
Net cash (used in) provided by financing activities	<u>(577.7)</u>	<u>(176.7)</u>	<u>300.8</u>
Effect of exchange rate changes on cash and cash equivalents	4.1	0.2	(3.1)
Change in cash and cash equivalents	<u>(236.4)</u>	<u>32.0</u>	<u>89.3</u>
Cash and cash equivalents—beginning of period	551.3	519.3	430.0
Cash and cash equivalents—end of period	<u>\$ 314.9</u>	<u>\$ 551.3</u>	<u>\$ 519.3</u>

Supplemental cash flow data:

Cash paid during the period for:

Interest	\$ 9.6	\$ 9.8	\$ 8.3
Income taxes	\$ 5.0	\$ 0.6	\$ 1.4
Non-cash investing and financing activities:			
Property and equipment received and accrued in accounts payable and accrued liabilities	\$ 7.8	\$ 19.9	\$ 7.3
Property and equipment acquired under finance leases	\$ 145.8	\$ 144.1	\$ 98.5

See accompanying Notes to Consolidated Financial Statements.

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

Note 1. Description of the Business and Summary of Significant Accounting Policies

Business

Dropbox, Inc. (the “Company” or “Dropbox”) is one place to keep life organized and keep work moving. Dropbox was incorporated in May 2007 as Evenflow, Inc., a Delaware corporation, and changed its name to Dropbox, Inc. in October 2009. The Company is headquartered in San Francisco, California.

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with the United States of America generally accepted accounting principles (“GAAP”). The accompanying consolidated financial statements include the accounts of Dropbox and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company’s consolidated financial statements and accompanying notes. These estimates are based on information available as of the date of the consolidated financial statements. Management evaluates these estimates and assumptions on a regular basis. Actual results may differ materially from these estimates.

The Company’s most significant estimates and judgments involve the valuation of acquired intangible assets and goodwill from business combinations. In addition, in the fourth quarter of 2020, the Company performed a valuation of right-of-use and other lease related assets due to the decision to shift to a Virtual First work model. See Note 9, "Leases" for further discussion.

Financial information about segments and geographic areas

The Company manages its operations and allocates resources as a single operating segment. Further, the Company manages, monitors, and reports its financials as a single reporting segment. The Company’s chief operating decision-maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance, and allocating resources. See Note 15, "Geographic Areas" for information regarding the Company's long-lived assets and revenue by geography.

Foreign currency transactions

The assets and liabilities of the Company’s foreign subsidiaries are translated from their respective functional currencies into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expense amounts are translated at the average exchange rate for the period. Foreign currency translation gains and losses are recorded in other comprehensive income (loss).

Gains and losses realized from foreign currency transactions (those transactions denominated in currencies other than the foreign subsidiaries’ functional currency) are included in other income, net. Monetary assets and liabilities are remeasured using foreign currency exchange rates at the end of the period, and non-monetary assets are remeasured based on historical exchange rates. The Company recorded net foreign currency transaction gains of \$2.9 million and losses of \$0.8 million in the years ended December 31, 2020 and 2019 respectively.

Revenue recognition

The Company derives its revenue from subscription fees from customers for access to its platform. The Company’s policy is to exclude sales and other indirect taxes when measuring the transaction price of its subscription agreements. The Company accounts for revenue contracts with customers through the following steps:

- Identification of the contract, or contracts, with a customer

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company's subscription agreements generally have monthly or annual contractual terms and a small percentage have multi-year contractual terms. Revenue is recognized ratably over the related contractual term beginning on the date that the platform is made available to a customer. Access to the platform represents a series of distinct services as the Company continually provides access to, and fulfills its obligation to the end customer over the subscription term. The series of distinct services represents a single performance obligation that is satisfied over time. The Company recognizes revenue ratably because the customer receives and consumes the benefits of the platform throughout the contract period. The Company's contracts are generally non-cancelable.

The Company bills in advance for monthly contracts and typically bills annually in advance for contracts with terms of one year or longer. The Company also recognizes an immaterial amount of contract assets, or unbilled receivables, primarily relating to consideration for services completed but not billed at the reporting date. Unbilled receivables are classified as receivables when the Company has the right to invoice the customer.

The Company records contract liabilities when cash payments are received or due in advance of performance to deferred revenue. Deferred revenue primarily relates to the advance consideration received from the customer.

The price of subscriptions is generally fixed at contract inception and therefore, the Company's contracts do not contain a significant amount of variable consideration. As a result, the amount of revenue recognized in the periods presented from performance obligations satisfied (or partially satisfied) in previous periods was not material.

The Company recognized \$554.2 million, \$481.1 million, \$411.6 million of revenue during the years ended December 31, 2020, 2019, and 2018 respectively, that was included in the deferred revenue balances at the beginning of their respective periods.

As of December 31, 2020, future estimated revenue related to performance obligations that were unsatisfied or partially unsatisfied was \$673.4 million. The substantial majority of the unsatisfied performance obligations will be satisfied over the next twelve months.

Stock-based compensation

The Company has granted RSUs to its employees and members of the Board of Directors under the 2008 Equity Incentive Plan ("2008 Plan"), the 2017 Equity Incentive Plan ("2017 Plan"), and the 2018 Equity Incentive Plan ("2018 Plan" and together with the 2008 Plan and 2017 Plan, the "Dropbox Equity Incentive Plans"). The Company has granted the following types of RSUs under the Dropbox Equity Incentive Plans:

- One-tier RSUs, which have a service-based vesting condition over a four-year period. These awards typically have a cliff vesting period of one year and continue to vest quarterly thereafter. The Company began granting one-tier RSUs under its 2008 Plan in August 2015, and it continues to grant one-tier RSUs under its 2018 Plan. The Company recognizes compensation expense associated with one-tier RSUs ratably on a straight-line basis over the requisite service period and accounts for forfeitures in the period in which they occur.
- Two-tier RSUs, which had both a service-based vesting condition and a Performance Vesting Condition. The Performance Vesting Condition was satisfied on the effectiveness of the registration statement related to the Company's IPO. Prior to August 2015, the Company granted two-tier RSUs under the 2008 Plan. The last grant date for two-tier RSUs was in May 2015. The Company recognized compensation expense associated with two-tier RSUs using the accelerated attribution method over the requisite service period.

As of December 31, 2020, the Company only had one-tier RSUs outstanding under the Dropbox Equity Incentive Plans.

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

Since August 2015, the Company has granted one-tier RSUs as the only stock-based payment awards to its employees, with the exception of awards granted to its co-founders and certain executives, and has not granted any stock options to employees since then. The fair values of the common stock underlying the RSUs granted in periods prior to the date of the Company's IPO were determined by the Board of Directors, with input from management and contemporaneous third-party valuations, which were performed at least quarterly. For valuations after the Company's IPO, the Board of Directors determines the fair value of each share of underlying common stock based on the closing price of the Company's Class A common stock as reported on the Nasdaq Global Select Market on the date of the grant.

In connection with the acquisition of JN Projects, Inc. (d/b/a HelloSign) ("HelloSign"), the Company assumed unvested stock options that had been granted under the HelloSign's 2011 Equity Incentive Plan. The fair value of options assumed were based upon the Black-Scholes option-pricing model, see Note 12, "Stockholders' Equity" for further information.

In December 2017, the Board of Directors approved a grant to the Company's co-founders of restricted stock awards ("RSAs") with respect to 14.7 million shares of Class A Common Stock in the aggregate (collectively, the "Co-Founder Grants"), of which 10.3 million RSAs were granted to Mr. Houston, the Company's co-founder and Chief Executive Officer, and 4.4 million RSAs were granted to Mr. Ferdowsi, the Company's co-founder and former director. These Co-Founder Grants have service-based, market-based, and performance-based vesting conditions. The Company estimated the grant date fair value of the Co-Founder Grants using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the Stock Price Targets may not be satisfied. Effective March 19, 2020, Mr. Ferdowsi resigned as a member of the Board of Directors and as an officer of the Company. As of the date of Mr. Ferdowsi's resignation, none of the Stock Price Targets had been met, resulting in the forfeiture of his 4.4 million RSAs. See Note 12, "Stockholders' Equity" for further information.

Cost of revenue

Cost of revenue consists primarily of expenses associated with the storage, delivery, and distribution of the Company's platform for both paying users and free users, also known as Basic users. These costs, which are referred to as infrastructure costs, include depreciation of servers located in co-location facilities that the Company leases and operates, rent and facilities expense for those datacenters, network and bandwidth costs, support and maintenance costs for infrastructure equipment, and payments to third-party datacenter service providers. Cost of revenue also includes costs, such as salaries, bonuses, benefits, travel-related expenses, and stock-based compensation, which are referred to as employee-related costs, for employees whose primary responsibilities relate to supporting the Company's infrastructure and delivering user support. Other non-employee costs included in cost of revenue include credit card fees related to processing customer transactions and allocated overhead, such as facilities, including rent, utilities, depreciation on leasehold improvements and other equipment shared by all departments, and shared information technology costs. In addition, cost of revenue includes amortization of developed technologies, professional fees related to user support initiatives, and property taxes related to the datacenters.

Advertising and promotional expense

Advertising and promotional expenses are included in sales and marketing expenses within the consolidated statements of operations and are expensed when incurred. Advertising and promotional expenses were \$81.4 million, \$88.8 million, and \$100.9 million in the years ended December 31, 2020, 2019, and 2018, respectively.

Cash and cash equivalents

Cash consists primarily of cash on deposit with banks and includes amounts in transit from payment processors for credit and debit card transactions, which typically settle within five business days. Cash equivalents include highly liquid investments purchased with an original maturity date of 90 days or less from the date of purchase.

The Company monitors its credit risk by considering factors such as historical experience, credit ratings, current economic conditions, and reasonable and supportable forecasts.

Short-term investments

The Company's short-term investments are primarily comprised of corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, U.S. agency obligations, foreign government securities, supranational securities, and municipal securities. The Company determines the appropriate classification of its short-term investments at the time of purchase and reevaluates such designation at each balance sheet date. The Company has

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classified and accounted for its short-term investments as available-for-sale securities as the Company may sell these securities at any time for use in its current operations or for other purposes, even prior to maturity. As a result, the Company classifies its short-term investments, including securities with stated maturities beyond twelve months, within current assets in the consolidated balance sheets.

The Company's short-term investments are recorded at fair value each reporting period. Unrealized gains and losses on these short-term investments are reported as a separate component of accumulated other comprehensive income (loss) in the consolidated balance sheets until realized. Unrealized gains and losses for any short-term investments that management intends to sell or it is more likely than not that management will be required to sell prior to their anticipated recovery are recorded in other income, net. The Company segments its portfolio based on the underlying risk profiles of the securities and has a zero-loss expectation for U.S. treasury and U.S. government agency securities. The Company regularly reviews the securities in an unrealized loss position and evaluates the current expected credit loss by considering factors such as credit ratings, issuer-specific factors, current economic conditions, and reasonable and supportable forecasts. The Company did not record any material credit losses during the year ended December 31, 2020.

Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivable, and short-term investments. The Company places its cash and cash equivalents, and short-term investments with well-established financial institutions.

Trade accounts receivable are typically unsecured and are derived from revenue earned from customers located around the world. Two distribution partners accounted for 11% and 28% of total trade and other receivables, net as of December 31, 2020. Two distribution partners accounted for 10% and 27% of total trade and other receivables, net as of December 31, 2019. No customer accounted for more than 10% of the Company's revenue in the periods presented.

Trade and other receivables, net

Trade and other receivables, net consists primarily of trade receivables that are recorded at the invoice amount, net of an allowance for expected credit losses.

The allowance for expected credit losses is based on the Company's assessment of the collectability of accounts receivable. The Company assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when the Company identifies specific customers with known disputes or collectability issues. The Company regularly reviews the adequacy of the allowance for expected credit losses by considering the age of each outstanding invoice, the collection history of each customer, and other relevant factors, including contractual term and current and future economic conditions. The Company's allowance for expected credit losses was \$0.5 million and \$0.5 million as of December 31, 2020 and 2019, respectively.

Non-trade receivables

The Company records non-trade receivables to reflect amounts due for activities outside of its subscription agreements, such as non-current notes receivable. Non-trade receivables totaled \$2.7 million and \$7.4 million, as of December 31, 2020 and 2019, respectively, and are classified within prepaid expenses and other current assets in the accompanying consolidated balance sheets. See "—Lease obligations" for further discussion.

Deferred commissions, net

Deferred commissions, net is stated as gross deferred commissions less accumulated amortization. Sales commissions earned by the Company's sales force and third-party resellers, as well as related payroll taxes, are considered to be incremental and recoverable costs of obtaining a contract with a customer. These amounts have been capitalized as deferred commissions within prepaid and other current assets and other assets on the consolidated balance sheets. The Company deferred incremental costs of obtaining a contract of \$35.0 million and \$28.1 million during the years ended December 31, 2020 and 2019, respectively.

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Deferred commissions, net included in prepaid and other current assets were \$26.7 million and \$19.9 million as of December 31, 2020 and 2019, respectively. Deferred commissions, net included in other assets were \$47.3 million and \$43.5 million as of December 31, 2020 and 2019, respectively.

Deferred commissions are typically amortized over a period of benefit of five years. The period of benefit was estimated by considering factors such as historical customer attrition rates, the useful life of the Company's technology, and the impact of competition in its industry. Amortized costs were \$24.4 million, \$17.5 million, and \$12.1 million for the years ended December 31, 2020, 2019, and 2018, respectively. Amortized costs are included in sales and marketing expense in the accompanying consolidated statements of operations. There was no impairment loss in relation to the deferred costs for any period presented.

Property and equipment, net

Equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, which is generally three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease.

The following table presents the estimated useful lives of property and equipment:

Property and equipment	Useful life
Buildings	20 to 30 years
Datacenter and other computer equipment	3 to 5 years
Office equipment and other	3 to 7 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Equity investments

As of December 31, 2020, the Company held an equity investment in a privately held entity in which the Company did not have a controlling interest or significant influence. During the year ended December 31, 2020, the Company also held and sold an equity investment in a publicly traded company in which the Company did not have a controlling interest or significant influence. The Company recognized a net gain of \$16.8 million related to the sale of the publicly traded equity investment. The investment had a carrying value of \$9.8 million as of December 31, 2019, and was previously measured using quoted prices in its active market with changes recorded in other income, net, in the condensed consolidated statement of operations.

Lease obligations

The Company leases office space, datacenters, and equipment under non-cancelable finance and operating leases with various expiration dates through 2036. The Company determines if an arrangement contains a lease at inception.

Operating lease right-of-use assets and lease liabilities are recognized at the present value of the future lease payments at commencement date. The interest rate implicit in the Company's operating leases is not readily determinable, and therefore an incremental borrowing rate is estimated to determine the present value of future payments. The estimated incremental borrowing rate factors in a hypothetical interest rate on a collateralized basis with similar terms, payments, and economic environments. Operating lease right-of-use assets also include any prepaid lease payments and lease incentives.

Certain of the operating lease agreements contain rent concession, rent escalation, and option to renew provisions. Rent concession and rent escalation provisions are considered in determining the single lease cost to be recorded over the lease term. Single lease cost is recognized on a straight-line basis over the lease term commencing on the date the Company has the right to use the leased property. The lease terms may include options to extend or terminate the lease. The Company generally uses the base, non-cancelable, lease term when recognizing the lease assets and liabilities, unless it is reasonably certain that the option will be exercised.

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In addition, certain operating lease agreements contain tenant improvement allowances from its landlords. These allowances are accounted for as lease incentives and decrease the Company's right-of-use asset and reduce single lease cost over the lease term.

As part of the Company's Virtual First strategy, Dropbox will retain a portion of its office space to be used for the Company's team collaboration use and a portion will be marketed for sublease. As a result, the Company recorded an impairment charge of \$215.8 million related to right-of-use assets and \$182.4 million related to other lease related property and equipment assets. See Note 4 "Property and Equipment, Net" and Note 9 "Leases" for further information.

The Company leases certain equipment from various third parties, through equipment finance leases. These leases either include a bargain purchase option, a full transfer of ownership at the completion of the lease term, or the terms of the leases are at least 75 percent of the useful lives of the assets and are therefore classified as finance leases. These leases are capitalized in property and equipment, net and the related amortization of assets under finance leases is included in depreciation and amortization expense in the Company's consolidated statements of operations. Initial asset values and finance lease obligations are based on the present value of future minimum lease payments.

The Company's finance lease agreements may contain lease and non-lease components. The non-lease components include payments for support on infrastructure equipment obtained via finance leases, which when not significant in relation to the overall agreement, are combined with the lease components and accounted for together as a single lease component

Internal use software

The Company capitalizes certain costs related to developed or modified software solely for its internal use and cloud based applications used to deliver its platform. The Company capitalizes costs during the application development stage once the preliminary project stage is complete, management authorizes and commits to funding the project, and it is probable that the project will be completed and that the software will be used to perform the function intended. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Capitalized internal use software costs were not material to the Company's consolidated financial statements during the years ended December 31, 2020, 2019, and 2018.

Business combinations

The Company uses best estimates and assumptions, including but not limited to, future expected cash flows, expected asset lives, and discount rates, to assign a fair value to the tangible and intangible assets acquired and liabilities assumed in business combinations as of the acquisition date. These estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

Long-lived assets, including goodwill and other acquired intangible assets, net

The Company evaluates the recoverability of its property and equipment and finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review determines that the carrying amount of specific property and equipment or intangible assets is not recoverable, the carrying amount of such assets is reduced to its fair value.

The Company reviews goodwill for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances would more likely than not reduce the fair value of its single reporting unit below its carrying value.

The Company has not recorded impairment charges on goodwill or intangible assets for the periods presented in these consolidated financial statements.

The Company recorded an impairment charge of \$215.8 million related to right-of-use assets and \$182.4 million related to other lease related property and equipment assets in conjunction with its decision to move towards a Virtual First work model. See Note 4 "Property and Equipment, Net" and Note 9 "Leases" for further information.

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Acquired property and equipment and finite-lived intangible assets are amortized over their useful lives. The Company evaluates the estimated remaining useful life of these assets when events or changes in circumstances warrant a revision to the remaining period of amortization. If the Company revises the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life on a prospective basis.

Income taxes

Deferred income tax balances reflect the effects of temporary differences between the financial reporting and tax bases of the Company's assets and liabilities using enacted tax rates expected to apply when taxes are actually paid or recovered. In addition, deferred tax assets are recorded for net operating loss and credit carryforwards.

A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized based on all available positive and negative evidence. Such evidence includes, but is not limited to, recent cumulative earnings or losses, expectations of future taxable income by taxing jurisdiction, and the carry-forward periods available for the utilization of deferred tax assets.

The Company uses a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense.

Although the Company believes that it has adequately reserved for its uncertain tax positions, it can provide no assurance that the final tax outcome of these matters will not be materially different. The Company evaluates its uncertain tax positions on a regular basis and evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, such as the 2017 Tax Cuts and Jobs Act ("2017 Tax Reform Act"), the 2020 Coronavirus Aid, Relief, and Economic Security Act ("2020 CARES Act"), and the California 2020 Budget Act, correspondence with tax authorities during the course of an audit, and effective settlement of audit issues.

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on the Company's financial condition and results of operations.

Fair value measurement

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Recently adopted accounting pronouncements

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Most prominent among the changes in the standard is the recognition of right-of-use assets ("ROU assets") and lease liabilities by lessees for certain leases classified as operating leases under current GAAP. The Company made the policy election to not recognize a lease liability or right-of-use asset for short-term operating leases.

The Company adopted the standard as of January 1, 2019, using the modified retrospective approach and has elected to use the optional transition method which allows the Company to apply the guidance of ASC 840, including disclosure requirements, in the comparative periods presented. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification related to agreements entered prior to adoption.

The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The adoption of the new standard resulted in the recording of operating ROU assets and lease liabilities of approximately \$431.7 million and \$502.4 million, respectively, as of January 1, 2019.

The accounting for finance leases remained unchanged, except for the accounting for certain non-lease components. Lease and non-lease components will be accounted for as a single lease component if the non-lease component is determined to be insignificant to the total agreement.

The cumulative impact of transition to retained earnings, recorded as of the adoption date, was not material. The standard did not materially impact consolidated net earnings and had no impact on cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The Company adopted ASU No. 2016-13 on January 1, 2020 using the modified retrospective approach. The cumulative impact of transition to retained earnings, recorded as of the adoption date, was not material to the Company's consolidated financial statements. The Company did not record any material credit losses during the year ended December 31, 2020.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which amends disclosure requirements for fair value measurements by requiring new disclosures, modifying existing requirements, and eliminating others. The amendments are the result of a broader disclosure project, which aims to improve the effectiveness of disclosures. The Company adopted ASU No. 2018-13 on January 1, 2020. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in ASU No. 2018-15 amend the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain costs as if the arrangement were an internal-use software project. The Company adopted ASU No. 2018-15 on January 1, 2020. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. This ASU simplifies accounting for income taxes by removing the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or gain for other items, the exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, the exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This ASU also includes other requirements related to franchise tax, goodwill as part of a business combination, consolidations, changes in tax laws, and affordable housing projects. The Company adopted ASU No. 2019-12 on January 1, 2020. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

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Note 2. Cash, Cash Equivalents and Short-Term Investments

The amortized cost, unrealized gains and losses and estimated fair value of the Company's cash, cash equivalents and short-term investments as of December 31, 2020 consisted of the following:

	Amortized cost	Unrealized gain	Unrealized loss	Estimated fair value
Cash	\$ 67.2	\$ —	\$ —	\$ 67.2
Cash equivalents				
Money market funds	222.6	—	—	222.6
U.S. Treasury securities	10.6	—	—	10.6
Commercial paper	8.0	—	—	8.0
Corporate notes and obligations	5.0	—	—	5.0
Municipal securities	1.5	—	—	1.5
Total cash and cash equivalents	<u>\$ 314.9</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 314.9</u>
Short-term investments				
Corporate notes and obligations	374.3	2.5	(0.1)	376.7
U.S. Treasury securities	215.4	1.0	—	216.4
Asset backed securities	73.5	0.6	—	74.1
Municipal securities	38.7	0.1	—	38.8
U.S. agency obligations	23.0	0.1	—	23.1
Commercial paper	22.5	—	—	22.5
Supranational Securities	18.7	—	—	18.7
Foreign government obligations	18.5	—	—	18.5
Certificates of deposit	17.6	—	—	17.6
Total short-term investments	<u>802.2</u>	<u>4.3</u>	<u>(0.1)</u>	<u>806.4</u>
Total	<u>\$ 1,117.1</u>	<u>\$ 4.3</u>	<u>\$ (0.1)</u>	<u>\$ 1,121.3</u>

The amortized cost, unrealized gains and losses and estimated fair value of the Company's cash, cash equivalents and short-term investments as of December 31, 2019 consisted of the following:

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	Amortized cost	Unrealized gain	Unrealized loss	Estimated fair value
Cash	\$ 105.0	\$ —	\$ —	\$ 105.0
Cash equivalents				
Money market funds	444.3	—	—	444.3
Commercial paper	2.0	—	—	2.0
Total cash and cash equivalents	<u>\$ 551.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 551.3</u>
Short-term investments				
Corporate notes and obligations	285.5	1.2	(0.1)	286.6
U.S. Treasury securities	171.0	0.3	—	171.3
Asset backed securities	53.8	—	—	53.8
Certificates of deposit	38.2	—	—	38.2
U.S. agency obligations	27.2	—	—	27.2
Commercial paper	24.2	—	—	24.2
Supranational securities	4.0	—	—	4.0
Municipal securities	2.4	—	—	2.4
Total short-term investments	<u>606.3</u>	<u>1.5</u>	<u>(0.1)</u>	<u>607.7</u>
Total	<u>\$ 1,157.6</u>	<u>\$ 1.5</u>	<u>\$ (0.1)</u>	<u>\$ 1,159.0</u>

Included in cash and cash equivalents is cash in transit from payment processors for credit and debit card transactions of \$9.8 million and \$11.5 million as of December 31, 2020 and December 31, 2019, respectively.

All short-term investments were designated as available-for-sale securities as of December 31, 2020.

The following table presents the contractual maturities of the Company's short-term investments as of December 31, 2020:

	Amortized cost	Estimated fair value
Due within one year	\$ 215.7	\$ 216.0
Due between one to three years	378.9	381.9
Due after three years	207.6	208.5
Total	<u>\$ 802.2</u>	<u>\$ 806.4</u>

The Company had 60 short-term investments in unrealized loss positions as of December 31, 2020. There were no material unrealized losses from available-for-sale securities and no material realized gains or losses from available-for-sale securities that were reclassified out of accumulated other comprehensive income for the year ended December 31, 2020.

As of December 31, 2020, the Company's short-term investments portfolio consisted of nine security types, one of which was in an unrealized loss position. The Company's corporate notes and obligations had unrealized losses of approximately \$0.1 million as of December 31, 2020. Unrealized losses on corporate notes and obligations have not been recorded into income because management does not intend to sell nor will be required to sell these securities prior to their anticipated recovery, and for which the decline in fair value is largely due to changes in credit spreads. The credit ratings associated with the corporate notes and obligations are mostly unchanged, are highly rated and the issuers continue to make timely principal and interest payments.

The Company recorded \$12.5 million, \$22.8 million, and \$16.8 million in interest income from its cash, cash equivalents and short-term investments for the years ended December 31, 2020, 2019 and 2018, respectively.

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Note 3. Fair Value Measurements

The Company measures its financial instruments at fair value each reporting period using a fair value hierarchy that prioritizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents information about the Company's financial instruments that are measured at fair value on a recurring basis using the input categories discussed in Note 1:

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 222.6	\$ —	\$ —	\$ 222.6
U.S. Treasury securities	—	10.6	—	10.6
Commercial paper	—	8.0	—	8.0
Corporate notes and obligations	—	5.0	—	5.0
Municipal securities	—	1.5	—	1.5
Total Cash Equivalents	\$ 222.6	\$ 25.1	\$ —	\$ 247.7
Short-term investments				
Corporate notes and obligations	—	376.7	—	376.7
U.S. Treasury securities	—	216.4	—	216.4
Asset backed securities	—	74.1	—	74.1
Municipal securities	—	38.8	—	38.8
U.S. agency obligations	—	23.1	—	23.1
Commercial paper	—	22.5	—	22.5
Supranational securities	—	18.7	—	18.7
Foreign government obligations	—	18.5	—	18.5
Certificates of deposit	—	17.6	—	17.6
Total short-term investments	—	806.4	—	806.4
Total	\$ 222.6	\$ 831.5	\$ —	\$ 1,054.1

As of December 31, 2020, the Company had an investment in a non-marketable equity security in a privately held Company without a readily determinable market value. The investment had a carrying value of \$5.6 million and is categorized as Level 3.

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	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 444.3	\$ —	\$ —	\$ 444.3
Commercial paper	—	2.0	—	2.0
Total Cash Equivalents	<u>\$ 444.3</u>	<u>\$ 2.0</u>	<u>\$ —</u>	<u>\$ 446.3</u>
Short-term investments				
Corporate notes and obligations	—	286.6	—	286.6
U.S. Treasury securities	—	171.3	—	171.3
Asset-backed securities	—	53.8	—	53.8
Certificates of deposit	—	38.2	—	38.2
U.S. agency obligations	—	27.2	—	27.2
Commercial paper	—	24.2	—	24.2
Supranational securities	—	4.0	—	4.0
Municipal securities	—	2.4	—	2.4
Total short-term investments	<u>—</u>	<u>607.7</u>	<u>—</u>	<u>607.7</u>
Equity Investments	9.8	—	—	9.8
Total	<u>\$ 454.1</u>	<u>\$ 609.7</u>	<u>\$ —</u>	<u>\$ 1,063.8</u>

The Company had no transfers between levels of the fair value hierarchy.

The carrying amounts of certain financial instruments, including cash held in banks, accounts receivable and accounts payable approximate fair value due to their short-term maturities and are excluded from the fair value table above.

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Note 4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	As of December 31,	
	2020	2019
Datacenter and other computer equipment	\$ 652.7	\$ 749.3
Furniture and fixtures	19.9	35.5
Leasehold improvements	96.9	211.4
Construction in progress	21.0	36.3
Total property and equipment	790.5	1,032.5
Accumulated depreciation and amortization	(451.8)	(587.2)
Property and equipment, net	\$ 338.7	\$ 445.3

During the fourth quarter of 2020 the Company retired \$104.3 million of fully depreciated datacenter assets that are no longer in use. The Company also wrote down \$215.3 million in gross asset costs which was \$162.4 million net of depreciation as result of its decision to move towards a Virtual First work model. See Note 9 "Leases" for further information.

The Company leases certain infrastructure from various third parties, through equipment finance leases. Infrastructure assets as of December 31, 2020 and 2019, respectively, included a total of \$395.2 million and \$321.8 million acquired under finance lease agreements. These leases are capitalized in property and equipment, and the related amortization of assets under finance leases is included in depreciation and amortization expense. The accumulated depreciation of the infrastructure assets under finance leases totaled \$156.6 million and \$124.6 million as of December 31, 2020 and 2019, respectively.

Construction in progress includes costs primarily related to construction of leasehold improvements for office buildings and datacenters.

Depreciation expense related to property and equipment was \$145.1 million and \$159.9 million for the years ended December 31, 2020 and 2019 respectively.

Note 5. Business Combinations

On February 8, 2019, the Company acquired all outstanding stock of JN Projects, Inc. (d/b/a HelloSign) ("HelloSign"), which provides an e-signature and document workflow platform. The acquisition of HelloSign expands the Company's content collaboration capabilities to include additional business-critical workflows. The results of HelloSign operations have been included in the Company's consolidated results of operations since the date of acquisition.

The purchase consideration transferred consisted of the following:

	Purchase consideration
Cash paid to common and preferred stockholders and vested option holders	\$ 175.2
Transaction costs paid by Dropbox on behalf of HelloSign	2.4
Fair value of assumed HelloSign options attributable to pre-combination services ⁽¹⁾	0.8
Purchase price adjustments	(0.5)
Total purchase consideration	\$ 177.9

⁽¹⁾ The fair value of options assumed were based upon the Black-Scholes option-pricing model.

In addition to the total purchase consideration above, the Company has compensation agreements with key HelloSign personnel consisting of \$48.5 million in future cash payments subject to on-going employee service. The related expenses are recognized within research and development expenses over the required service period of three years. The payments began in

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the first quarter of 2020, with \$28.2 million paid during the year ended December 31, 2020. The remaining balance of \$20.3 million will be paid evenly in quarterly installments over the remaining required service period.

The purchase consideration was preliminarily allocated to the tangible and intangible assets and liabilities acquired as of the acquisition date, with the excess recorded to goodwill as shown below.

Assets acquired:		
Cash and cash equivalents	\$	5.5
Short-term investments		7.8
Acquisition-related intangible assets		44.6
Accounts receivable, prepaid and other assets		5.0
Total assets acquired	\$	62.9
Liabilities assumed:		
Accounts payable, accrued and other liabilities	\$	6.3
Deferred revenue		4.8
Deferred tax liability		6.9
Total liabilities assumed		18.0
Net assets acquired, excluding goodwill		44.9
Total purchase consideration		177.9
Goodwill ⁽²⁾	\$	133.0

⁽²⁾ The goodwill recognized was primarily attributable to the opportunity to expand the user base of the Company's platform. The goodwill is not deductible for U.S. federal income tax purposes.

The fair value of the separately identifiable finite-lived intangible assets acquired and estimated weighted average useful lives are as follows:

	Estimated fair values	Estimated weighted average useful lives (In years)
Customer relationships	20.5	4.9
Developed technology	19.6	5.0
Trade name	4.5	5.0
Total acquisition-related intangible assets	\$ 44.6	

The fair values of the acquisition-related intangibles were determined using the following methodologies: the multi-period excess earnings method, replacement cost method, and the relief from royalty method, for customer relationships, developed technology, and the trade name, respectively. The valuation model inputs required the application of significant judgment by management. At the time of acquisition, the acquired intangible assets had a total weighted average amortization period of 4.9 years.

One-time acquisition-related diligence costs of \$1.0 million were expensed within general and administrative expenses as incurred for the year ended December 31, 2019.

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Note 6. Intangible Assets, Net

Intangible assets consisted of the following:

	As of December 31,		Weighted-average remaining useful life (In years)
	2020	2019	
Developed technology	\$ 26.0	\$ 25.8	3.1
Customer relationships	20.5	20.5	3.4
Patents	12.8	13.0	7.2
Software	9.0	20.0	1.1
Assembled workforce in asset acquisitions	3.0	12.6	—
Licenses	4.6	4.6	0.5
Trademarks and trade names	4.6	5.2	3.1
Other	0.8	3.3	4.7
Total intangibles	81.3	105.0	
Accumulated amortization	(47.8)	(57.6)	
Intangible assets, net	<u>\$ 33.5</u>	<u>\$ 47.4</u>	

During 2020 the Company wrote-off \$24.2 million in fully amortized non-compete, trademarks, assembled workforce, patents, and capitalized software assets.

Amortization expense was \$14.1 million, \$13.6 million, and \$6.1 million, for the years ended December 31, 2020, 2019, and 2018, respectively.

Expected future amortization expense for intangible assets as of December 31, 2020, is as follows:

2021	\$	11.6
2022		8.3
2023		7.6
2024		3.4
2025		0.9
Thereafter		1.7
Total	<u>\$</u>	<u>33.5</u>

Note 7. Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. The changes in the carrying amounts of goodwill were as follows:

Balance at December 31, 2019	\$	234.5
Effect of foreign currency translation		2.4
Balance at December 31, 2020	<u>\$</u>	<u>236.9</u>

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The goodwill acquired from HelloSign and our other acquisition is carried in U.S. dollars, while goodwill from previous acquisitions is denominated in other foreign currencies.

Goodwill amounts are not amortized, but tested for impairment on an annual basis. There was no impairment of goodwill as of December 31, 2020, 2019, and 2018.

Note 8. Revolving Credit Facility

In April 2017, the Company entered into an amended and restated credit and guaranty agreement which provided for a \$600.0 million revolving loan facility (as amended from time to time, the “revolving credit facility”). In conjunction with the revolving credit facility, the Company paid upfront issuance fees of \$2.6 million, which are being amortized over the five-year term of the agreement.

In February 2018, the Company amended the revolving credit facility to, among other things, permit the Company to make certain investments, enter into an unsecured standby letter of credit facility and increase its standby letter of credit sublimit to \$187.5 million. The Company increased its borrowing capacity under the revolving credit facility from \$600.0 million to \$725.0 million. The Company may from time to time request increases in its borrowing capacity under the revolving credit facility of up to \$275.0 million, provided no event of default has occurred or is continuing or would result from such increase. In conjunction with the amendment, the Company paid upfront issuance fees of \$0.4 million, which are being amortized over the remaining term of the agreement.

Pursuant to the terms of the revolving credit facility, the Company may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing. Pursuant to the terms of the revolving credit facility, the Company is required to pay an annual commitment fee that accrues at a rate of 0.20% per annum on the unused portion of the borrowing commitments under the revolving credit facility. In addition, the Company is required to pay a fee in connection with letters of credit issued under the revolving credit facility, which accrues at a rate of 1.5% per annum on the amount of such letters of credit outstanding. There is an additional fronting fee of 0.125% per annum multiplied by the average aggregate daily maximum amount available under all letters of credit. Borrowings under the revolving credit facility bear interest, at the Company’s option, at an annual rate based on LIBOR plus a spread of 1.50% or at an alternative base rate plus a spread of 0.50%.

The revolving credit facility contains customary conditions to borrowing, events of default and covenants, including covenants that restrict the Company’s ability to incur indebtedness, grant liens, make distributions to holders of the Company or its subsidiaries’ equity interests, make investments, or engage in transactions with its affiliates. In addition, the revolving credit facility contains financial covenants, including a consolidated leverage ratio covenant and a minimum liquidity balance of \$100.0 million, which includes any available borrowing capacity. The Company was in compliance with the covenants of the revolving credit facility as of December 31, 2020 and December 31, 2019, respectively.

The Company had an aggregate of \$45.4 million of letters of credit outstanding under the revolving credit facility as of December 31, 2020, and the Company’s total available borrowing capacity under the revolving credit facility was \$679.6 million as of December 31, 2020. The Company’s letters of credit have final expiration dates through 2032.

Note 9. Leases

Leases

The Company has operating leases for corporate offices and datacenters, and finance leases for infrastructure equipment, furniture and fixtures, and computer equipment. The Company’s leases have remaining lease terms of 1 year to 15 years, some of which include options to extend the leases for up to 5 years.

The Company also has subleases for several floors of its former corporate offices. The Company classifies its subleases as operating leases. The subleases have remaining lease terms of 1 year to 13 years. Sublease income, which is recorded as a reduction of rental expense, was \$7.2 million for the year ended December 31, 2020 and \$7.1 million for the year ended December 31, 2019.

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The components of lease cost were as follows:

	Year ended December 31,	
	2020	2019
Operating lease cost ⁽¹⁾	125.5	103.2
Finance lease cost:		
Amortization of assets under finance lease	84.8	80.3
Interest	9.1	9.2
Total finance lease cost	93.9	89.5

⁽¹⁾ Is presented gross of sublease income and includes short-term leases, which are immaterial

Other information related to leases was as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Supplemental Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Payments for operating leases included in cash from operating activities	\$ 121.5	\$ 102.8
Payments for finance leases included in cash from operating activities	9.1	9.2
Payments for finance leases included in cash from financing activities	89.5	92.9
Assets obtained in exchange for lease obligations:		
Operating leases	109.3	297.0
Finance leases	\$ 145.8	\$ 144.1

	As of December 31, 2020	Year ended December 31, 2019
Weighted Average Remaining Lease Term (in years)		
Operating leases	10.6	11.3
Finance leases	2.9	3.0
Weighted Average Discount Rate		
Operating leases	4.0 %	4.3 %
Finance leases	3.4 %	4.3 %

Future minimum lease payments under non-cancellable leases as of December 31, 2020 were as follows:

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Year ending December 31,	Operating leases ⁽¹⁾	Finance leases
2021	\$ 122.5	\$ 106.9
2022	117.0	93.3
2023	101.1	59.6
2024	90.5	24.6
2025	85.3	—
Thereafter	564.7	—
Total future minimum lease payments	1,081.1	284.4
Less imputed interest	(223.2)	(13.2)
Less tenant incentive receivables	(9.6)	—
Total obligations	<u>\$ 848.3</u>	<u>\$ 271.2</u>

⁽¹⁾ Consists of future non-cancelable minimum rental payments under operating leases for the Company's corporate offices and datacenters where the Company has possession, excluding rent payments from the Company's sub-tenants and variable operating expenses.

Future non-cancelable rent payments from the Company's subtenants as of December 31, 2020 were as follows:

Year ending December 31,	Operating leases
2021	\$ 15.0
2022	19.6
2023	11.0
2024	10.2
2025	10.5
Thereafter	67.5
Total future sublease rent payments	133.8
Less sub-tenant incentive	(10.5)
Total future sublease rent payments, net	<u>\$ 123.3</u>

In 2017, the Company entered into a lease agreement for office space in San Francisco, California, to serve as its corporate headquarters. The Company took initial possession of the first phase of its corporate headquarters in June 2018, and began to recognize single lease cost and recorded a lease obligation, net of tenant improvement reimbursements associated with the first phase. In April 2019, the Company took possession of the second phase, and began to recognize additional lease costs and recorded an additional lease obligation, net of tenant improvement reimbursements related to the second phase. In December 2019, the Company took possession of the final phase, and began to recognize lease costs and lease obligation, net of tenant improvement reimbursements related to the third phase. The Company's total expected minimum obligations over the entire lease term for all three phases are \$836.4 million, which excludes expected tenant improvement reimbursements from the landlord of approximately \$75.0 million and variable operating expenses. The Company's obligations under the lease are supported by a \$34.2 million letter of credit, which reduced the borrowing capacity under the revolving credit facility. For the year ended December 31, 2020, the Company collected tenant improvement reimbursements from the landlord totaling \$16.4 million.

In the fourth quarter of 2020, the Company announced a new Virtual First work model pursuant to which remote work will become the primary experience for all of its employees. As part of the Virtual First strategy, Dropbox will retain a portion of its office space to be used for the Company's team collaboration use and a portion will be marketed for sublease. The Company evaluated certain of its right-of-use assets and other lease related assets including leasehold improvements, furniture and fixtures, and computer equipment for impairment under ASC 360.

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In connection with analysis, the Company reassessed its real estate asset groups and estimated the fair value of the office space to be subleased using current market conditions. Where the carrying value of the individual asset groups exceeded their fair value, an impairment charge was recognized for the difference.

As a result, the Company recorded total impairment of \$398.2 million for right-of-use and other lease related assets. Of the total impairment charge, \$215.8 million is related to right-of-use assets and \$182.4 million is related to other lease related assets including leasehold improvements, furniture and fixtures, and computer equipment.

The Company utilized an income approach to value the asset groups by developing discounted cash flow models. The significant assumptions used in the discounted cash flow models for each of the asset groups included projected sublease income over the remaining lease terms, expected downtime prior to the commencement of future subleases, expected lease incentives offered to future tenants, and discount rates that reflected the level of risk associated with these future cash flows. These significant assumptions are considered Level 3 inputs in accordance with the fair value hierarchy described in Note 1. Description of the Business and Summary of Significant Accounting Policies.

As of December 31, 2020, the Company had commitments of \$112.8 million for operating leases that have not yet commenced, and therefore are not included in the right-of-use asset or operating lease liability. These operating leases will commence in 2021 with lease terms of 5 years to 15 years.

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Note 10. Commitments and Contingencies

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Other commitments

Other commitments include payments to third-party vendors for services related to the Company's infrastructure, infrastructure warranty contracts, and asset retirement obligations for office modifications.

Future minimum payments under the Company's non-cancelable leases, finance lease obligations, and other commitments as of December 31, 2020, are as follows, and exclude non-cancelable rent payments from the Company's sub-tenants:

	Finance lease commitments	Operating lease commitments⁽¹⁾	Other commitments⁽²⁾
Year ended December 31:			
2021	106.9	125.0	52.8
2022	93.3	125.8	39.1
2023	59.6	109.4	36.0
2024	24.6	98.7	—
2025	—	93.5	—
Thereafter	—	642.8	16.6
Future minimum payments	284.4	1,195.2	144.5
Less interest and taxes	(13.2)		
Less current portion of the present value of minimum lease payments	(99.6)		
Financing lease obligations, net of current portion	171.6		

(1) This balance includes short-term lease obligations and operating leases that we have entered into but have not yet commenced.

(2) This balance excludes founder holdbacks related to our acquisition of HelloSign. See Note 5, "Business Combinations" for further details.

Legal matters

From time to time, the Company is a party to a variety of claims, lawsuits, and proceedings which arise in the ordinary course of business, including claims of alleged infringement of intellectual property rights. The matters described in Item 3. ("Legal Proceedings") are examples of the types of claims Dropbox is currently defending. The Company records a liability when it believes that it is probable that a loss will be incurred and the amount of loss or range of loss can be reasonably estimated. In its opinion, resolution of pending matters is not likely to have a material adverse impact on its condensed consolidated results of operations, cash flows, or its financial position. Given the unpredictable nature of legal proceedings, the Company bases its estimate on the information available at the time of the assessment. As additional information becomes available, the Company reassesses the potential liability and may revise the estimate.

The Company is currently involved in four putative class action lawsuits alleging violations of the federal securities laws that were filed on August 30, 2019, September 5, 2019, September 13, 2019, and October 3, 2019, in the Superior Court of the State of California, San Mateo County, against the Company, certain of its officers and directors, underwriters of its IPO, and Sequoia Capital XII, L.P. and certain of its affiliated entities (collectively, the "Dropbox Defendants"). On October 4, 2019, two putative class action lawsuits alleging violations of the federal securities laws were filed against the Dropbox Defendants in the U.S. District Court for the Northern District of California (the "Federal Plaintiffs"). The six lawsuits each made the same or similar allegations of violations of federal securities laws, for allegedly making materially false and misleading statements in, or omitting material information from, the Company's IPO registration statement. The plaintiffs sought unspecified monetary damages and other relief.

On March 2, 2020, the Federal Plaintiffs filed a consolidated class action complaint. On April 16, 2020, the Dropbox Defendants filed a motion to dismiss the federal consolidated class action complaint. On October 21, 2020, the court issued an order granting the Company's motion to dismiss the Federal Plaintiffs' complaint, setting a deadline of January 6, 2021 for the Federal Plaintiffs to file any amended complaint. The federal court extended this deadline to February 22, 2021 to provide time for the parties to explore resolving the case. On February 11, 2021, the parties attended mediation and reached a settlement in principle for an immaterial amount subject to final documentation and preliminary and final approval by the court.

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On May 11, 2020, the Dropbox Defendants filed a motion to dismiss the consolidated state court case based on the exclusive federal forum provisions contained in the Company's amended and restated bylaws. On December 4, 2020, the state court issued an order granting our motion to dismiss the consolidated state court case. On December 15, 2020, the State Plaintiffs filed a notice of appeal of this order. The Company believes the appeal and claims are without merit and intends to vigorously defend against them.

Indemnification

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims.

Note 11. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	As of December 31,	
	2020	2019
Non-income taxes payable	\$ 85.9	\$ 92.2
Accrued legal and other external fees	23.4	29.2
Other accrued and current liabilities	47.4	40.5
Total accrued and other current liabilities	<u>\$ 156.7</u>	<u>\$ 161.9</u>

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Note 12. Stockholders' Equity

Common stock

The Company's amended and restated certificate of incorporation authorizes the issuance of Class A common stock, Class B common stock, and Class C common stock. Holders of Class A common stock, Class B common stock, and Class C common stock are entitled to dividends on a pro rata basis, when, as, and if declared by the Company's Board of Directors, subject to the rights of the holders of the Company's preferred stock. Holders of Class A common stock are entitled to one vote per share, holders of Class B common stock are entitled to 10 votes per share, and holders of Class C common stock are entitled to zero votes per share. Holders of Class B common stock voluntarily converted 77.8 million and 38.9 million shares into an equivalent number shares of Class A common stock during the years ended December 31, 2020 and December 31, 2019 respectively.

As of December 31, 2020, the Company had authorized 2,400.0 million shares of Class A common stock, 475.0 million shares of Class B common stock, and 800.0 million shares of Class C common stock, each at par value of \$0.00001. As of December 31, 2020, 322.3 million shares of Class A common stock, 83.5 million shares of Class B common stock, and no shares of Class C common stock were issued and outstanding. As of December 31, 2019, 255.8 million shares of Class A common stock, 161.2 million shares of Class B common stock, and no shares of Class C common stock were issued and outstanding. Class A shares issued and outstanding as of December 31, 2020 exclude restricted stock awards granted to certain executives during the year. Class A shares issued and outstanding as of December 31, 2020 exclude 10.3 million unvested restricted stock awards granted to the Company's co-founder. Class A shares issued and outstanding as of December 31, 2019 and 2018 exclude 14.7 million unvested restricted stock awards granted to the Company's co-founders. See "Co-Founder Grants" section below for further details.

Preferred stock

The Company's Board of Directors has the authority, without further action by the Company's stockholders, to issue up to 240.0 million shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the Board of Directors.

Stock repurchase program

In February 2020, the Company's Board of Directors approved a stock repurchase program for the repurchase of up to \$600 million of the Company's outstanding shares of Class A common stock. In February 2021 the Board of Directors authorized the Company to repurchase up to an additional \$1 billion of the Company's outstanding shares of Class A common stock. Share repurchases will be made from time to time in private transactions or open market purchases, as permitted by securities laws and other legal requirements and will be subject to a review of the circumstances in place at that time, including prevailing market prices. The program does not obligate the Company to repurchase any specific number of shares and may be discontinued at any time.

During the year ended December 31, 2020, the Company repurchased and subsequently retired 20.2 million shares of its Class A common stock for an aggregate amount of \$397.5 million.

Equity incentive plans

Under the 2018 Plan, the Company may grant stock-based awards to purchase or directly issue shares of common stock to employees, directors, and consultants. Options are granted at a price per share equal to the fair market value of the Company's common stock at the date of grant. Options granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years. RSUs and RSAs are also granted under the 2018 Plan. The 2018 Plan will terminate 10 years after the later of (i) its adoption or (ii) the most recent stockholder-approved increase in the number of shares reserved under the 2018 Plan, unless terminated earlier by the Company's Board of Directors. The 2018 Plan was adopted on March 22, 2018.

In connection with the acquisition of HelloSign, the Company assumed unvested stock options that had been granted under HelloSign's 2011 Equity Incentive Plan.

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As of December 31, 2020, there were 33.3 million stock-based awards issued and outstanding and 78.5 million shares available for issuance under the Dropbox Equity Incentive Plans and HelloSign's 2011 Equity Incentive Plan (collectively, the "Plans").

Stock option and restricted stock activity for the Plans was as follows for the years ended December 31, 2020 and 2019:

	Number of shares available for issuance under the Plans	Options outstanding			Aggregate Intrinsic Value	Restricted stock outstanding	
		Number of shares outstanding under the Plans	Weighted-average exercise price per share	Weighted-average remaining contractual term (In years)		Number of Plan shares outstanding	Weighted-average grant date fair value per share
Balance at December 31, 2018	57.1	1.3	\$ 14.68	5.0	9.1	25.0	\$ 18.68
Additional shares authorized	21.2						
Stock options assumed	0.9	0.9	\$ 6.02				
Options exercised and restricted stock units released	—	(0.3)	\$ 6.82			(11.2)	19.01
Options and restricted stock units canceled	7.1	(0.2)	\$ 18.89			(6.9)	19.32
Shares withheld related to net share settlement	4.1						18.87
Options and restricted stock units granted	(24.2)	0.3	23.09			23.8	21.34
Balance at December 31, 2019	66.2	2.0	\$ 12.28	6.5	16.4	30.7	\$ 20.48
Additional shares authorized	21.7	—	—			—	—
Options exercised and restricted stock units and awards released	—	(0.4)	5.67			(13.1)	19.57
Options and restricted stock units and awards canceled	10.8	(0.3)	17.62			(10.6)	19.92
Shares withheld related to net share settlement	4.7	—	—			—	19.56
Options and restricted stock units and awards granted	(24.9)	—	—			24.9	18.88
Balance as of December 31, 2020 ⁽¹⁾	78.5	1.3	\$ 13.73	5.7	11.35	31.9	\$ 19.79
Vested at December 31, 2020		1.0	\$ 16.02	5.2	6.75	—	\$ —
Unvested at December 31, 2020		0.3	\$ 5.86		4.60	31.9	\$ 19.79

⁽¹⁾ This amount excludes restricted stock awards granted with service and market based vesting conditions.

The following table summarizes information about the pre-tax intrinsic value of options exercised during the years ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
Intrinsic value of options exercised	\$ 6.3	\$ 5.3

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As of December 31, 2020, unamortized stock-based compensation related to unvested stock options, restricted stock awards (excluding the Co-Founder Grants), and RSUs was \$613.9 million. The weighted-average period over which such compensation expense will be recognized if the requisite service is provided is approximately 2.8 years as of December 31, 2020.

Assumed stock options

In connection with the acquisition of HelloSign the Company assumed 0.9 million unvested stock options which were valued using the Black-Scholes option-pricing model. The fair value of stock options assumed were estimated using the following assumptions:

Expected volatility	51.6 %
Expected term (in years)	3.4 - 7.0
Risk-free interest rate	2.42% - 2.51%
Dividend yield	— %

Expected volatility. The expected volatility is based on the Company's historical volatility. Management believes this is the best estimate of the expected volatility over the expected life of its stock options.

Expected term. The Company determines the expected term based on the average period the stock options are expected to remain outstanding, generally calculated as the midpoint of the stock options' remaining vesting term and contractual expiration period, as the Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury security in effect at the time the options were assumed for maturities corresponding with the expected term of the option.

Expected dividend yield. The Company has not paid and does not expect to pay dividends. Consequently, the Company uses an expected dividend yield of zero.

The estimated weighted-average grant date fair value for stock options assumed was \$21.60 per share and total fair value of \$19.4 million, of which, \$18.6 million will be recognized as post-combination stock-based compensation expense.

Co-Founder Grants

In December 2017, the Board of Directors approved a grant to the Company's co-founders of non-Plan RSAs with respect to 14.7 million shares of Class A Common Stock in the aggregate (collectively, the "Co-Founder Grants"), of which 10.3 million RSAs were granted to Mr. Houston, the Company's co-founder and Chief Executive Officer, and 4.4 million RSAs were granted to Mr. Ferdowsi, the Company's co-founder and former director. These Co-Founder Grants have service-based, market-based, and performance-based vesting conditions. The Co-Founder Grants are excluded from Class A common stock issued and outstanding until the satisfaction of these vesting conditions. The Co-Founder Grants also provide the holders with certain stockholder rights, such as the right to vote the shares with the other holders of Class A common stock and a right to cumulative declared dividends. However, the Co-Founder Grants are not considered a participating security for purposes of calculating net loss per share attributable to common stockholders in Note 13, "Net Loss Per Share", as the right to the cumulative declared dividends is forfeitable if the service condition is not met.

The Co-Founder Grants are eligible to vest over the ten-year period following the date the Company's shares of Class A common stock commenced trading on the Nasdaq Global Select Market in connection with the Company's IPO. The Co-Founder Grants comprise nine tranches that are eligible to vest based on the achievement of stock price goals ranging from \$30 to \$90 per share, each of which are referred to as a Stock Price Target, measured over a consecutive thirty-day trading period during the Performance Period. The Performance Period began on January 1, 2019.

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(Amounts in tables are in millions except per share data, or as otherwise noted)

During the first four years of the Performance Period, no more than 20% of the shares subject to each Co-Founder Grant would be eligible to vest in any calendar year. After the first four years, all shares are eligible to vest based on the achievement of the Stock Price Targets.

In March 2020, one of the Company's co-founders, Mr. Ferdowsi, resigned as a member of the Board of Directors and as an officer of the Company. As he did not provide the requisite service associated with the Co-Founder Grants, the Company reversed all stock-based compensation expense that had been recognized from the grant date through March 19, 2020, which totaled \$23.8 million, of which \$21.5 million related to expense recognized prior to December 31, 2019, and ceased recognizing further expense related to the award.

The Company recognized stock-based compensation expense related to the Co-Founder Grants of \$23.4 and \$34.9 million during the years ended December 31, 2020 and December 31, 2019, respectively. The amount of stock-based compensation expense related to the Co-Founder Grants for the year ended December 31, 2020 does not include the reversal of \$23.8 million in expense for Mr. Ferdowsi's grant. Unamortized stock-based compensation expense related to the Co-Founder Grants was \$35.7 million and \$84.2 million for the years ended December 31, 2020 and December 31, 2019, respectively.

Note 13. Net Loss Per Share

The Company computes net loss per share using the two-class method required for multiple classes of common stock and participating securities. The rights, including the liquidation and dividend rights, of the Class A common stock and Class B common stock are substantially identical, other than voting rights. Accordingly, the Class A common stock and Class B common stock share equally in the Company's net income and losses.

The following table sets forth the calculation of basic and diluted net loss per share attributable to common stockholders during the periods presented. The voluntary conversions of Class B common stock into Class A common stock are included in the table below weighted for the respective periods outstanding.

	Year ended December 31,					
	2020		2019		2018	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:						
Net loss attributable to common stockholders	\$ (182.5)	\$ (73.8)	\$ (30.3)	\$ (22.4)	\$ (138.7)	\$ (346.2)
Denominator:						
Weighted-average number of common shares outstanding used in computing basic and diluted net loss per common share	295.0	119.3	236.8	174.8	102.6	256.0
Net loss per common share, basic and diluted	\$ (0.62)	\$ (0.62)	\$ (0.13)	\$ (0.13)	\$ (1.35)	\$ (1.35)

Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. The weighted-average impact of potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive was as follows:

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

	Year ended December 31,		
	2020	2019	2018
Restricted stock units and awards	10.5	29.3	35.0
Options to purchase shares of common stock	0.9	1.9	4.0
Co-Founder Grants	11.3	14.7	14.7
Shares subject to repurchase from early-exercised options and unvested restricted stock	—	—	0.1
Total	22.7	45.9	53.8

Note 14. Income Taxes

For the years ended December 31, 2020, 2019, and 2018, the Company's loss from continuing operations before provision for income taxes was as follows:

	Year ended December 31,		
	2020	2019	2018
Domestic	\$ (57.7)	\$ (98.8)	\$ (497.1)
Foreign	(192.5)	46.8	17.0
Loss before income taxes	\$ (250.2)	\$ (52.0)	\$ (480.1)

The components of the benefit from (provision for) income taxes in the years ended December 31, 2020, 2019, and 2018, were as follows:

	Year ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ —	\$ 0.1	\$ (0.1)
State	(2.7)	(0.6)	(0.2)
Foreign	(6.0)	(7.7)	(4.6)
Deferred:			
Federal	—	6.6	—
State	—	0.6	—
Foreign	2.6	0.3	0.1
Benefit from (provision for) income taxes	\$ (6.1)	\$ (0.7)	\$ (4.8)

A reconciliation of income taxes at the statutory federal income tax rate to the benefit from (provision for) income taxes included in the accompanying consolidated statements of operations is as follows:

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

	Year ended December 31,		
	2020	2019	2018
Tax benefit at federal statutory rate	\$ 52.5	\$ 10.9	\$ 100.8
State taxes, net of federal benefit	1.2	2.4	10.7
Foreign rate differential	(12.2)	(0.9)	1.8
Research and other credits	34.9	30.2	86.5
Non-deductible compensation	(4.1)	(3.4)	—
Meals & entertainment	(0.6)	(2.5)	(2.2)
Permanent differences	(1.2)	(2.1)	(16.2)
Change in valuation allowance	(69.6)	(32.2)	(240.7)
Stock-based compensation	(3.2)	1.8	57.3
Other non-deductible items	(3.8)	(4.9)	(2.8)
Benefit from (provision for) income taxes	<u>\$ (6.1)</u>	<u>\$ (0.7)</u>	<u>\$ (4.8)</u>

The significant components of the Company's deferred tax assets and liabilities as of December 31, 2020 and 2019 were as follows:

	As of December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 230.3	\$ 257.2
Research credit carryforwards	226.3	188.6
Stock-based compensation	27.3	29.3
Accruals and reserves	34.0	32.3
Lease liability	208.1	189.8
Other	3.2	1.0
Gross deferred tax assets	729.2	698.2
Valuation allowance	(583.7)	(510.8)
Total deferred tax assets, net of valuation allowance	145.5	187.4
Deferred tax liabilities:		
Fixed assets and intangible assets	5.8	13.1
Right-of-use assets	135.4	172.7
Other	0.3	0.3
Total deferred tax liability	141.5	186.1
Net deferred tax assets	<u>\$ 4.0</u>	<u>\$ 1.3</u>

For the years ended December 31, 2020 and 2019, based on all available objective evidence, including the existence of cumulative losses, the Company determined that it was unlikely that the U.S., Ireland, and Israel net deferred tax assets were fully realizable as of December 31, 2020 and 2019. Accordingly, the Company established a full valuation allowance against its U.S. and Ireland deferred tax assets and a partial valuation allowance against its Israeli deferred tax assets.

Given the Company's recent history of foreign earnings, management believes that there is a reasonable possibility that, within the next twelve months, sufficient positive evidence may become available to allow management to reach a conclusion that a significant portion of the valuation allowance recorded against the deferred tax assets held by its Irish subsidiary will be reversed. The reversal would result in an income tax benefit for the quarterly and annual fiscal period in which the Company releases the valuation allowance. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that the Company actually achieves.

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

As of December 31, 2020, the Company had \$697.7 million of federal, \$292.8 million of state, and \$430.5 million of foreign net operating loss carryforwards available to reduce future taxable income. Of the federal net operating loss carryforwards, \$71.8 million will begin to expire in 2032 and \$625.9 million will carryforward indefinitely, while state net operating losses begin to expire in 2029.

As of December 31, 2020, the Company had research credit carryforwards of \$207.9 million and \$113.8 million for federal and state income tax purposes, respectively, of which \$51.9 million and \$28.5 million is the unrecognized tax benefit portion related to the research credit carryforwards for federal and state, respectively.

The federal credit carryforward will begin to expire in 2027. The state research credits have no expiration date. The Company also had \$2.1 million of state enterprise zone credit carryforwards, which will begin to expire in 2023.

As of December 31, 2020, the Company also had \$407.6 million of foreign net operating loss carryforwards available to reduce future taxable income, which will carryforward indefinitely. In addition, the Company had \$22.9 million of foreign acquired net operating losses, which will carryforward indefinitely. The Company also had \$0.5 million of foreign tax credit carryforwards, which will carryforward indefinitely.

Under Section 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. The Company has determined that it has experienced multiple ownership changes and, as a result, the annual utilization of its net operating loss carryforwards and other pre-change attributes will be subject to limitation. However, the Company does not expect that the annual limitations will significantly impact its ability to utilize its net operating loss or tax credit carryforwards prior to expiration.

As of December 31, 2020, the balance of unrecognized tax benefits was \$91.4 million of which \$11.0 million, if recognized, would affect the effective tax rate and \$80.4 million would result in adjustment to deferred tax assets with corresponding adjustments to the valuation allowance.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	Year ended December 31,		
	2020	2019	2018
Balance of gross unrecognized tax benefits at the beginning of the fiscal year	\$ 74.5	\$ 59.8	\$ 25.6
Gross increases related to prior period tax positions	1.3	0.1	1.1
Gross increases related to current period tax positions	15.8	14.6	33.1
Reductions due to lapse in statute of limitations	(0.2)	—	—
Reductions due to settlements with taxing authorities	—	—	—
Balance of gross unrecognized tax benefits at the end of the fiscal year	<u>\$ 91.4</u>	<u>\$ 74.5</u>	<u>\$ 59.8</u>

The Company recognizes interest and/or penalties related to income tax matters as a component of income tax expense. As of December 31, 2020, the amount of accrued interest and penalties related to uncertain tax positions was \$3.3 million. Interest and penalties recognized for the year ended December 31, 2020, 2019, and 2018 was \$0.7 million, \$1.3 million, and \$0.7 million, respectively.

It is reasonably possible that there could be changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues, reassessment of existing uncertain tax positions, or the expiration of applicable statutes of limitations; however, the Company is not able to estimate the impact of these items at this time.

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

The Company files income tax returns in the U.S. federal, multiple states, and foreign jurisdictions. All of the Company's tax years from 2007 remain open for examination by the federal and state authorities, and from 2013 by foreign authorities.

The Company generally does not provide deferred income taxes for the undistributed earnings of its foreign subsidiaries as the Company intends to reinvest such earnings indefinitely. Should circumstances change and it becomes apparent that some or all of the undistributed earnings will no longer be indefinitely reinvested, the Company will accrue for income taxes not previously recognized. As of December 31, 2020, there were no cumulative undistributed earnings in its Irish subsidiary and, as a result, there were no unrecorded deferred tax liabilities. The amount of undistributed earnings in the Company's other foreign subsidiaries, if any, are immaterial.

On June 7, 2019, a judicial panel of the Ninth Circuit Court of Appeals issued an opinion in *Altera Corp. v. Commissioner* that would require related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. On July 22, 2019, the taxpayer requested an en banc rehearing before the full Ninth Circuit Court of Appeals and the request was denied on November 12, 2019. On February 10, 2020, the taxpayer filed a petition for writ of certiorari to the U.S. Supreme Court, which was denied on June 22, 2020. Accordingly, the Company has included stock-based compensation in its cost-sharing agreements and as a result, the Company recognized additional state tax expenses in some jurisdictions which do not have sufficient net operating losses to offset the state income. There was no material impact on the Company's income tax provision for the U.S. and Ireland due to its full valuation allowance.

On June 29, 2020, California Governor Newsom signed Assembly Bill No. 85 as part of the California 2020 Budget Act which temporarily suspends the use of California net operating losses and imposes a cap on the amount of business incentive tax credits companies can utilize against their net income. This guidance does not have a material impact on the Company's provision for income taxes in its consolidated financial statements as of December 31, 2020.

Note 15. Geographic Areas

Long-lived assets

The following table sets forth long-lived assets by geographic area:

	As of December 31,	
	2020	2019
United States	\$ 334.2	\$ 431.9
International ⁽¹⁾	4.5	13.4
Total property and equipment, net	<u>\$ 338.7</u>	<u>\$ 445.3</u>

- ⁽¹⁾ No single country other than the United States had a property and equipment balance greater than 10% of total property and equipment, net, as of December 31, 2020 and 2019.

Revenue

Revenue by geography is generally based on the address of the customer as defined in the Company's subscription agreement. The following table sets forth revenue by geographic area for the years ended December 31, 2020, 2019, and 2018:

	Year ended December 31,		
	2020	2019	2018
United States	\$ 999.3	\$ 854.1	\$ 706.5
International ⁽¹⁾	914.6	807.2	685.2
Total revenue	<u>\$ 1,913.9</u>	<u>\$ 1,661.3</u>	<u>\$ 1,391.7</u>

- ⁽¹⁾ No single country outside of the United States accounted for more than 10 percent of total revenue during the years ended December 31, 2020, 2019, and 2018

DROPBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

Note 16. Subsequent Events

On February 12, 2021 the Board of Directors authorized the Company to repurchase up to an additional \$1 billion of the Company's outstanding shares of Class A common stock under our previously announced stock repurchase program. The Company is authorized to repurchase, from time-to-time, shares of its outstanding common stock through open market purchases or in privately negotiated transactions, in accordance with applicable rules and regulations, at such time and such prices as management may decide. The program does not obligate the Company to repurchase any specific number of shares and may be discontinued at any time.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our management, under the supervision of our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) that occurred during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no

evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2021 Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2020.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2021 Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2021 Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2021 Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2020.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2021 Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as a part of this Annual Report on Form 10-K

(a) Financial statements

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

(b) Financial statement schedules.

All financial statement schedules not listed above have been omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

(c) Exhibits

The documents listed in the Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Form	File Number	Exhibit	Filed with SEC
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-38434	3.2	May 11, 2018
3.2	Amended and Restated Bylaws of the Registrant.	10-Q	001-38434	3.3	May 11, 2018
4.1	Form of Class A common stock certificate of the Registrant.	S-1/A	333-223182	4.1	March 12, 2018
4.2	Amended and Restated Investors' Rights Agreement among the Registrant and certain holders of its capital stock, dated as of January 30, 2014, as amended.	S-1	333-223182	4.2	February 23, 2018
4.3	Amendment No. 2 to the Amended and Restated Investors' Rights Agreement among the Registrant and certain holders of its capital stock, dated as of March 27, 2018.	10-Q	001-38434	4.3	May 11, 2018
4.4	Description of Capital Stock	10-Q	001-38434	4.1	August 7, 2020
10.1+	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1	333-223182	10.1	February 23, 2018
10.2*+	Dropbox, Inc. 2018 Equity Incentive Plan and related form agreements.				
10.3+	Dropbox, Inc. 2018 Employee Stock Purchase Plan and related form agreements.	S-1/A	333-223182	10.3	March 21, 2018
10.4+	Dropbox, Inc. 2018 Class C Stock Incentive Plan and related form agreements.	S-1/A	333-223182	10.4	March 21, 2018
10.5+	Dropbox, Inc. 2018 Class C Employee Stock Purchase Plan and related form agreements.	S-1/A	333-223182	10.5	March 21, 2018
10.6+	Dropbox, Inc. 2017 Equity Incentive Plan and related form agreements.	S-1/A	333-223182	10.6	March 21, 2018
10.7+	Dropbox, Inc. 2008 Equity Incentive Plan, as amended, and related form agreements.	S-1/A	333-223182	10.7	March 21, 2018
10.8*+	Dropbox, Inc. Amended and Restated Cash Bonus Plan.				
10.9+	Restricted Stock Agreement between the Registrant and Andrew W. Houston.	S-1	333-223182	10.9	February 23, 2018
10.10+	Form of Change in Control and Severance Agreement between the Registrant and certain executive officers.	10-K	001-38434	10.11	February 21, 2020

		Form	File Number	Exhibit	Filed with SEC
10.11+	Employment Letter between the Registrant and Andrew W. Houston.	S-1/A	333-223182	10.12	March 12, 2018
10.12+	Form of Restricted Stock Agreement between the Registrant and certain executive officers.	10-K	001-38434	10.14	February 21, 2020
10.13+	Employment Letter between the Registrant and Timothy Young.	10-K	001-38434	10.17	February 21, 2020
10.14+	Offer Letter between the Registrant and Timothy Regan	10-Q	001-38434	10.1	August 7, 2020
10.15+	Offer Letter between the Registrant and Timothy Young	10-Q	001-38434	10.1	November 6, 2020
10.16*+	Restricted Stock Agreement between the Registrant and Timothy Young				
10.17	Office Lease between the Registrant and KR Mission Bay, LLC, dated as of October 6, 2017.	S-1	333-223182	10.19	February 23, 2018
10.18	Second Amendment to Office Lease between Dropbox, Inc. and KR Mission Bay, LLC, dated as of May 25, 2018.	10-Q	001-38434	10.2	August 10, 2018
10.19	Second Amendment and Restatement to the Revolving Credit and Guaranty Agreement among the Registrant, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of April 3, 2017.	S-1	333-223182	10.20	February 23, 2018
10.20	Incremental Facility and Amendment Agreement among the Registrant, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of February 9, 2018.	S-1	333-223182	10.21	February 23, 2018
10.21+	Dropbox, Inc. Outside Director Compensation Policy and related form agreements.	10-K	001-38434	10.22	February 21, 2020
21.1*	List of subsidiaries of the Registrant.				
23.1*	Consent of Independent Registered Public Accounting Firm.				
24.1*	Power of Attorney (included in signature pages hereto).				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				

		Form	File Number	Exhibit	Filed with SEC
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.	The following financial statements from the Company's Annual Report on Form 10-K for the quarter ended December 31, 2019, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statement of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statement of Cash Flows, (v) Condensed Consolidated Statements of Stockholders' Equity, and (vi) Notes to Condensed Consolidated Financial Statements.				
104.	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

* Filed herewith.

+ Indicates management contract or compensatory plan.

† The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Dropbox, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in San Francisco, California, on February 19, 2021.

DROPBOX, INC.

By: /s/ Andrew W. Houston
Andrew W. Houston
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Andrew W. Houston and Timothy J. Regan, and each of them, as his or her true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for such individual in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or the individual's substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Andrew W. Houston Andrew W. Houston	Chief Executive Officer and Chairman (Principal Executive Officer)	February 19, 2021
/s/ Timothy J. Regan Timothy J. Regan	Chief Financial Officer (Principal Accounting and Financial Officer)	February 19, 2021
/s/ Donald W. Blair Donald W. Blair	Director	February 19, 2021
/s/ Lisa Campbell Lisa Campbell	Director	February 19, 2021
/s/ Paul E. Jacobs Paul E. Jacobs	Director	February 19, 2021
/s/ Robert J. Mylod Jr. Robert J. Mylod, Jr.	Director	February 19, 2021
/s/ Karen A. Peacock Karen A. Peacock	Director	February 19, 2021
/s/ Condoleezza Rice Condoleezza Rice	Director	February 19, 2021
/s/ Michael Seibel Michael Seibel	Director	February 19, 2021

